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## THE FORWARD VIEW





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By

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## FOREWORD

My object in writing this book has been to attempt an answer to two questions. The first is: "Where are we? What point have we reached in the evolution of national and world policies, and, far more important, in the evolution of political ideas?" The second is: "What are we to do? What is to be the practical conclusion from our study of the present situation, in the world, in the British Empire, and at home?" In dealing with that first question it has seemed to me essential to go back sufficiently in order to get a better perspective, and, above all, to avoid the error of thinking that the Great War was the beginning of all things, or that the ideas and ideals in vogue immediately after it are necessarily the ideas and ideals of the future. It is only in the light of such a perspective, of a true judgment of the trend of events, that it is possible either to lay down a course of policy or to indicate the goal towards which our endeavours should be directed. Politics is the science of what is practicable in human affairs, and cannot afford to disregard either the material or the imponderable factors of our environment and of the age in which we live. That must account for what, to some, may seem the unnecessary fullness both of historical background and of general disquisition in the first and prefatory part of this volume. But without it I should not have felt that the definite conclusions drawn in the second part would appear to the reader to be sufficiently surely founded, or to justify the claim, made in the title, that they are inspired by the "forward view."

L. S. AMERY

*July 1935*



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## INTRODUCTION

EVER since the Great War the nations of the world have concentrated, or professed to concentrate, their energies upon universal, world-wide solutions of their political and economic problems. The League of Nations was set up for this purpose, but as various states, for various reasons, refrained from joining it, or have since seceded, the normal machinery of the League has been supplemented by a series of international conferences which have met, or been in preparation, almost continuously during these years. Undaunted by obvious failure, official statesmanship, urged on by a large, earnest, and vocal body of opinion in many countries, and especially in our own, has steadily pinned its faith to the international method. For years we were officially bidden to believe that only the World Economic Conference could find a way out of the Slough of Despond of the world depression; that only the World Disarmament Conference could save humanity from another general conflagration in which civilization would finally perish.

The great World Economic Conference—the fifty-ninth conference since the War—met and was adjourned indefinitely two years ago, after confessing its complete incompetence even to begin seriously tackling its problem. Not a dog barked at its going. The Disarmament Conference, itself the crowning result of the labours of the Temporary Mixed Commission on Disarmament which was set up in March 1921, and of the Preparatory Commission for the Disarmament Conference which replaced it in 1925, and continued its sessions till December 1930, met in February 1932. After an intermittent career of eighteen months it finally collapsed in October 1933, when Germany walked out of the League, and only continues a shadowy existence in the shape of certain technical committees and an ever hopeful chairman. Even if there should be a real improvement in the European situation no one now expects more than some small face-saving conclusion to the ambitious project of general disarmament. The Washington



Conference has been denounced, and it is difficult to see how it can be revived in face of Japan's claim to a parity of naval strength which would give her unchallengeable control of the whole Western Pacific. As for the League itself Japan has taken its measure in Manchuria. Signor Mussolini has never left any doubt as to his intention to ignore the Covenant as having any possible bearing on Italian policy, in Abyssinia or anywhere else. Herr Hitler has made it abundantly clear that if he is to be checked in his designs upon Austria, it is not the League that will check him.

It is no use blaming particular countries or individual statesmen for this all-round failure of post-war policy. The fault lies in the methods pursued and in the ideas which it has been sought to apply. The main error in method has been the very attempt to treat the world as a unit and to find universal solutions for problems not susceptible—in our day at least—of such solutions. There are many matters, of great and growing importance, for which general international agreements can be devised and successfully worked. Posts and telegraphs, wireless wavelengths, flying rules, preventive and curative health services, these are only the beginnings of an expanding network of world-wide international co-operation. Even on so difficult a subject as the rules of war, and their adaptation to meet the new conditions introduced by aviation and gas warfare, some measure of international agreement, with reasonable hope of future observance, might not be impossible. But when it comes to the fundamental issues of war and peace, or of economic policy, immensely complex in each case and governed by essentially local and particular considerations, the attempt to control them by any single scheme of universal application or through any centralized machinery is bound to fail.

Moreover, the parent fault in method has, almost inevitably, bred another fault, namely the attempt to divide indissolubly complex problems into separate subjects and to deal with them in the abstract. Schemes or pacts for preventing war in general, conferences on disarmament at large, or on tariffs at large, are by their very nature doomed

to futility. The problem of Europe, for instance, is one and indivisible. It has its roots in a thousand years of history, since the ill-fated Treaty of Verdun, by which the successors of Charlemagne divided his Empire. Every mile of its frontiers represents some solution of century-old conflicts, of rival ambitions or of contending ideals. Yet amid all its sentimental jealousies and conflicts of interests it has a common interest and thinks the same thoughts. An attempt to deal with it as a problem by itself, in all its aspects, might go a long way. But only the emergence of a new idea, a new European patriotism, which can draw life and inspiration from the glories and tragedies of Europe's past and from the hopes of a new future, can really bring to our sorely vexed neighbour continent a true and abiding peace. To think, on the other hand, that the armament aspect of this inextricable tangle of issues can be dealt with by itself, and on a series of formulas equally applicable to the rest of the world, or that any real guidance can come to Europe from a League in which a leading part is played by Chinese or Guatemalans, or even by well-intentioned but uncomprehending Australians, Canadians, and Englishmen, is to betray a naïve and mechanical view of the infinitely complex historical and psychological structure of the European problem.

Yet another fault in method, accentuating the unreality of these abstract discussions of world affairs, has been the extent to which the old machinery of bilateral international contact through experts, each versed in the language, the mode of thought, and the problems and ambitions of the country to which he was accredited, has so largely been superseded by the multilateral contact of politicians at Geneva or at international conferences. There are, no doubt, advantages in personal acquaintance between the leading statesmen of the world. But they can be too dearly bought by the sacrifice of definite practical discussion to amiable generalities or to the hunt for some formula which will prevent a particular session of the League or a particular conference being regarded as a failure. Hypocrisy has inevitably been the order of the day at these gatherings. The homage, it may be said, paid by national

selfishness to the international ideals of the future, and so a presage of better things to come. But what if the ideals and ideas to which tribute is paid are not those of the future, but of the past, and are contrary to every social and economic force, to every political instinct, which is influencing the world to-day and will increasingly influence it in the immediate future?

We live in an age when science is transforming our material environment with a continuously increasing acceleration. In the last two years—shades of Columbus and of Captain Cook!—a young American flew round the world in a week, and a couple of Englishmen have reached the farthest end of Australia in less than three days. We can already converse instantaneously with the whole world, individually or collectively, and it is only a question of time before television is so perfected that we can conveniently see whatever happens anywhere while it is happening. New sources of power, new means of its transmission, are continually being discovered. And if science has revolutionized our external environment, we may well be on the eve of an even greater revolution in the transformation of man's physical and mental structure. It is in the adaptation of its own body to some particular end that each member of the animal world has attained its supreme achievement and rested content. The bird has made itself into an aeroplane, the fish into a submarine, the spider into a textile factory. Man, once started with his free hands upon the use of stick or stone, has devoted all his powers to the continuous evolution of the instruments which constitute his external and detachable self, leaving his immediate bodily self substantially unchanged and undifferentiated. To-morrow he may be turning back upon himself to see how he can transform his body and brain to suit his convenience or to increase his mastery over nature and over his fellow-men.

As against this breathless progress political ideas have moved but slowly. The main ideas which have transformed the political world in the last hundred years, democracy, free trade, socialism, nationalism, are all pre-evolutionary. They go back to the rationalist individualism of Voltaire,

to the sentimental individualism of Rousseau, to the economic individualism of Adam Smith and Ricardo, or its inversion by Karl Marx, to the romanticism of the counter-revolution. The organic, evolutionary conception of society, of the relation of the individual to the community, and of communities to each other, is only now, nearly a century after Darwin, beginning to influence politics, internal or international. Throughout the last century, indeed, its most stalwart—if usually unconscious—defenders were to be found in those conservative elements which have fought for the maintenance of historic institutions and for policies rooted in national instinct as against schemes following logically from the dominant formulas of the age. The progressive extension of political power to ever wider circles has itself contributed to delay that readjustment of current political thought to scientific thought and method which would, nevertheless, have taken place gradually but for the great upheaval of the War.

The end of that terrible struggle created a wide-spread and passionate desire for a better ordering of world affairs which should prevent the recurrence of such a tragedy. But the intellectual groundwork for reconstruction was lacking. The men who made the peace and had to carry it out were steeped, by their personalities, as well as by the hypnotic effect on themselves and on their public of their own war propaganda, in all the most out-of-date formulas of nineteenth-century political thought. They went both too far and not far enough. Too far in the ambitious scope of their schemes. Not far enough, because their ideas were essentially obsolescent. For fifteen years they and their successors have tried to organize the twentieth-century world on a foundation of mid-Victorian ideas, and have been puzzled and depressed by their failure to control the forces of modern national life or to create order out of increasing confusion. In the process the national policy of each country, and, not least, of our own, has lacked purpose and consistency, fluctuating between its immediate and instinctive sense of its needs and interests and its professed adherence to the ideals of Versailles and Geneva.

The time has come for a fresh start. We must all of us

jettison the economic internationalism of the last century and build upon a frank recognition of the economic nationalism of our own day. We must create domestic economic structures which will give to our several peoples the security and stability which is their greatest and most immediate need. We must transform our constitutions so that they can effectively cope with that need. We must, for many purposes at least, replace the make-believe machinery of an over-ambitious, all-embracing League of Nations by the really effective co-operation of groups or commonwealths of nations drawn together by effective ties of geographical proximity, of historic tradition, or economic interest. We must follow the natural line of evolution from the smaller unit to the greater which considerations of defence and economic prosperity alike demand under modern conditions. We shall in this way harness the great driving force of patriotism to a wider ideal instead of committing the folly of thinking that we can ignore or suppress it as something out of date. In the light of the new broader patriotisms we may solve problems insoluble hitherto, bringing true peace and co-operation where peace to-day is most endangered and co-operation most to seek. We may not have abolished war in the abstract or made the world an economic unit. But we shall have done something worth doing for every cause that the idealist professes to care for.

In such a fresh start for the world it is natural that we of the British Commonwealth should take the lead. Our Empire already constitutes just such a group as modern conditions demand for effective co-operation. To devote ourselves to the strengthening of that co-operation in every field—of external policy, of defence, of economic development, of scientific research, of social and intellectual progress—is to make the best contribution we can, both in fact and in example, to world reconstruction in our time. We are the bearers of a long tradition of ordered liberty, of freedom of thought and speech, of fair play to the individual. In every direction that tradition is being denied and treated with contempt by the fanatics of new forms of tyranny. We can save it for ourselves only if we are strong enough to defeat any attack upon it whether from within or from without.

We can save it for the world only by proving its success. We must bring freedom up to date. We must overhaul our political machinery, our Cabinet system, our Houses of Parliament, our methods of representation. We must recast our economic system so that it may afford better opportunity, greater security, more social justice, to all. We must see to it that all those who would overthrow our freedom, to whatever wing they may belong, shall have neither justification nor opportunity. Against the danger from without freedom must still rely, in the days to come, as of old, upon the strength of those who prize it, and the armed strength of the British Empire, on sea, on land and in the air, will long be needed to insure the freedom of its peoples.

Here at any rate is a clear policy for the future. It is a policy which fits in with a practical and yet far-reaching measure of world reconstruction. It is a policy which for ourselves offers peace, strength and prosperity, and an almost unlimited field for the expansion of all our constructive energies, economic and political. It is not an abstract phrase, but a concrete ideal, not a theory but a Great Adventure, inspired by a continuous and ever-expanding tradition of freedom and by the vision of what, with that tradition to guide us, we may yet make of England, of the Empire, and, through the Empire, of the world. To such a policy, preached with conviction and carried out with courage, I believe our peoples, here and all over the Empire, will rally with enthusiasm, regardless of obsolete party differences. My object, in the following pages, is to set forth at least some of the outlines of that policy and to justify it by showing both how we reached our present state of confusion and how we can find our way out.



PART I

THOUGHTS ON PRESENT  
DISCONTENTS





## CHAPTER I

### OF WAR AND PEACE

#### I. THE COMING OF THE GREAT WAR

THE most notable event in the history of the world during the last three centuries has been the expansion of England. The spirit of adventure which brought our ancestors from across the North Sea and the Channel to found their first oversea dominion in this island, stirring again in the old hive after a thousand years, sent out an endless swarm of traders, settlers, planters, administrators, missionaries, who carried with them not only the English language, but the characteristic ideas which have governed the development of our social and political life. They took with them—and have applied wherever they went—that clear recognition of the supremacy of the Law over all, even over the state and its ministers, which, ever since Magna Carta, has been the foundation of our system of ordered freedom. They took with them, for their own use in the first instance, the conviction that legislation, and especially taxation, could take place only with the concurrence of the representatives of the people. They took with them, above all, that spirit of toleration and fair play, of compromise and adjustment, which has sweetened our national life and shaped our constitution.

In one critical instance that spirit failed, both at home and overseas, and failed mainly because of an inherent defect in our constitutional machinery which we were only just overcoming at home without yet being aware of the meaning of what was happening or, indeed, of the fact itself. The system of representative government evolved in England in the Middle Ages, and continued well into the eighteenth century, was one which, before the discovery of what we now know as responsible government, offered no solution to the continuous conflict for power between the Executive and the Legislature. At its best it weakened the former without encouraging any real sense of responsibility

in the latter. At its worst it led to revolution. It was inevitably at its worst in the American colonies where the Executive, in the shape of the Governors, represented a remote central authority, and where the Legislatures represented the self-importance of young assemblies, largely tinged by the republican tradition of the old civil wars.

On the main issue, the duty of the Colonies to take some share in the cost of their own local defence, the Mother Country was undeniably in the right. Some of the more far-seeing Loyalists looked to some sort of federation of the Colonies to provide a body with some real sense of responsibility with which the British Government might deal. Their efforts were defeated by the opposition both of separatists in America and of extreme Tories at home. The solution of responsible government, so obvious to us to-day, had not then dawned on men's minds, at home or in America. But it is interesting, as a speculation, to consider whether America might not have been saved to the Empire if the double solution of federation and responsible government could have been tried in time.

Half a century later representative government broke down once more in what remained of Britain's North American colonies. But by this time the principle of responsible government was clearly understood at home, and it only required the genius of Lord Durham to draw the simple but revolutionary inference of applying it overseas in respect of those matters which most directly concerned the colonists. What was in fact established in the Canadas, and rapidly extended to all other British colonies of European settlement, was what we would now call a system of dyarchy, the colonists enjoying complete self-government in all matters of local concern, while matters of general Imperial interest remained under the undivided control of the Home Government exercised, as far as might be necessary, through the Governor. But the dyarchy was one whose border line was never defined. As the Colonies grew in population and developed external interests, still more as they federated into Dominions and developed a national consciousness, the British Government conceded to them one field of activity after another until the last long since withered husks of the

old system were formally peeled off by the Statute of Westminster.

Coupled with responsible government as the basis of the new self-governing Empire was another principle, that of toleration in matters of language, religion, and law. As early as 1774 the Quebec Act had established the French language and laws and the position of the Catholic Church in Canada. The Dutch language and Roman Dutch law were, at a later date, similarly recognized in South Africa. By the outbreak of the Great War the Dominions had grown to nationhood. But it was a nationhood which had developed from a natural growth in stature, and not by external conflict or internal revolution, and it was a nationhood based, not on any narrow nationalism but on the recognition of the equal rights of such racial or linguistic elements as might be represented within each Dominion. In South Africa, indeed, it has taken a generation of party controversy since the South African War to win something like general acceptance for the doctrine of a common South African nationality as against the old racial conflict. In Ireland our own mistakes and the peculiar Irish temperament have bred what can only be described as European nationalism in an aggravated form. Still, generally speaking, the growth within the British Empire of a group of new nations has followed a course wholly different from the contemporary emergence of the new nationalities of Europe.

At no point in the development of Dominion self-government was there any direct conflict between the aspirations of local patriotism and loyalty to the Imperial connexion. On the contrary, the two instincts continually interacted and reinforced each other. The Confederation of Canada was a step equally inspired by Canadian and Imperial ideals, and the same may be said both of Australian Federation and of South African Union. The South African War and the Great War each afforded opportunities for the manifestation of Imperial patriotism, and each enhanced in every Dominion the sense of its own national distinctiveness and national status. To understand this it is necessary to remember that the conception of Imperial Unity as something consistent with but transcending local

nationality has not merely survived as a compromise arising out of the circumstances of the last hundred years. It has been an intellectual and spiritual creed held with deep emotional intensity everywhere in the Empire and nowhere so strongly as overseas. It was in that faith that after 1783 the United Empire Loyalists, the best blood and the finest spirits in the American colonies, settled in the forest wilderness of Ontario and Nova Scotia, and from father to son, through a long succession of distinguished men, handed down the tradition which has ever since dominated Canadian public life. After Confederation that tradition began to exercise its influence across the Atlantic, and blend with that re-awakened interest in Empire questions which in the last quarter of the nineteenth century gave a new trend and a new idealism to our affairs at home. The writings of Seeley and Froude, the songs of Kipling, the speeches and actions of Macdonald, Rhodes, Deakin, Chamberlain, Milner—to select but a few names—created a body of ideas which profoundly stirred the last generation and may transform the next.

Side by side with the growth of the conception of an Empire or Commonwealth of free co-operation with the Dominions there grew up during these closing decades of the century a no less keen interest in the Empire of administration, in England's mission to create peace, order, and prosperity where anarchy and barbarism had reigned before. The greatest of all tasks ever achieved in that field, the pacification and organization of India, had gone on successfully, by its own sheer impetus, throughout the century, and new problems, of a very different character, were already beginning to demand attention as the consequence of that success. To that task were now added Burma and Malaya in the East, vast territories in East and West Africa, and, under peculiar constitutional conditions, Egypt and the Sudan. An immense new range of responsibilities confronted our people, calling for the highest qualities of disinterested administration and for the most far-seeing and understanding statesmanship.

All this development, all this immense transformation of the destinies of over a fifth of the world, took place free

from all outside interference. Military operations, no doubt, were from time to time called for, in India, in Egypt, and, on a comparatively large scale, in South Africa. But they were of a purely local character and dealt with essentially local problems. For eighty years after Trafalgar Britain's supremacy at sea was unquestioned, and none could dispute how much of the world she wished to occupy. Then came the period of European colonial expansion, of the scramble for Africa, of French and Russian activity in the Far East. Led by France and Russia, the European Powers began to build powerful battle fleets to back their oversea ambitions.

Britain's answer was a double one. She steadily increased her margin of naval strength to a point at which all serious challenge by any two, or even three, Powers was unthinkable. At the same time she maintained a consistently peaceful and moderate attitude in negotiation, admitting the natural claim of others to expansion, and only contesting it when substantial existing British interests were threatened. These issues came to a head very characteristically over Colonel Marchand's occupation of Fashoda, where a gallant but fantastic attempt to stake out a belt of French territory across Africa from West to East came into conflict with our much stronger claim, on economic as well as historical grounds, to the recovery of the whole Nile basin after Omdurman. To show that they were in earnest the British Government ordered the mobilization of an emergency squadron. But there were—as I saw with my own eyes during those critical days—already two squadrons in the Mediterranean, one off Crete and the other at Corfu, each of which could have blown the combined French and Russian Navies out of the water. France abandoned an essentially unjustifiable claim and peace was preserved. More than that, Fashoda led naturally to the subsequent Anglo-French clearing up of such differences as were still outstanding and so to the Anglo-French Entente.

Rarely in history has the value of armaments as the necessary support of peaceful and conciliatory policy been more clearly demonstrated. No amount of conciliation on our part would have prevented war if during the closing decades of the century the British Navy had been weak

enough to invite French and Russian attack. Incidentally, it is also worth noting that a competition in armaments does not necessarily end in war. It may also end, as it did in this case, when one competitor realizes that the other is prepared to go on making larger sacrifices than he is, either because he can better afford them, or because the issues at stake mean more to him.

With the beginning of the new century we found ourselves confronted with a danger of a very different character. The Franco-Russian naval effort was one which arose out of definite conflicts of interest with ourselves. It sought to turn the balance of power against us with a view to their solution in a Franco-Russian sense. The building of the German Navy was inspired by an entirely different motive. It was not concerned with any direct conflict of interests, and, indeed, there was none. It was built in pursuance of a dream, the dream of a great naval victory which should sink the British Navy, and, in a day, give Germany the kind of oversea Empire which she believed to be her due. That day would be the climax of the series of victories which had displaced Austria from the headship of Germany, and France from the headship of Europe, and would hand over to German efficiency vast territories which Britain had secured without adequate effort while Europe was busy with its own internal conflicts. It was a crazy dream, as well as a malignant one. It overlooked all the dangers that threatened Germany's position nearer home. With the recognition of those dangers it might well have passed away. But it was a powerful driving force while it lasted, and a serious menace to our existence.

There were two possible ways of meeting the German menace. One was to pursue, independently of others, the policy by which we had met the Franco-Russian menace, and to lay down two keels for one till Germany retired from the competition. With a Germany that had already outstripped us in industrial power this was a much more formidable undertaking, involving far heavier sacrifices. They were not sacrifices beyond our capacity, particularly if the other peoples of the Empire, recognizing the danger, had been prepared to take a larger part in sharing them.

But no effective Imperial organization for defence was possible without an effective Imperial trade policy, and that was vetoed by the still deep-seated economic internationalism of the British public, while the turn of the political tide now brought into power a Liberal Government pledged to the reduction of armaments as well as to Free Trade.

There thus remained the only other alternative, that of relying increasingly for our security on association with those Powers which, for entirely different reasons, were opposed to German military ascendancy in Europe. This was, in a sense, a reversion to the historic British policy of earlier centuries. But it was essentially a going back upon the development of a century which had made the British Empire more and more an Oceanic and extra-European Power. Moreover, it inevitably drew us into European issues arising out of conflicts of ideas and ambitions with which we had no concern. We became sleeping partners in the European nationalist struggle, committed, without realizing it, to the pursuit of objects in which we had no real interest.

The growth of nationalism in Europe has had little affinity with the parallel evolution of nationality in the British Commonwealth. The latter has been essentially a matter of self-governing status based on geographical and economic convenience irrespective of differences of race or language. The former has taken race, or rather language, as the basis of the state to which all other considerations, historical, geographical, or economic, should conform. The conception was one peculiarly characteristic of the nineteenth century. In earlier centuries feudal authority, religion, hereditary right, all seemed much more natural and appropriate criteria on which to base a state. In the coming century nationalism may well be superseded by the issue between different forms of political structure, between Parliamentarism, Fascism, and Bolshevism. But for the century between the Treaty of Paris and the Treaty of Versailles nationalism was the great motive force of European history and the underlying cause of almost every war.

It is worth noting that like so many other new ideas which have set the world by the ears, nationalism was first



advocated as a policy of peace. If only states were based on the simple and natural principle of social and cultural affinity there would, it was argued, no longer be any room for the conflict of dynastic ambitions. Unfortunately, the establishment of this "natural" principle could only take place at the expense of existing state structures and existing loyalties which were not prepared to give way except to force. By the very nature of things nationalism became increasingly an aggressive and intolerant force, often a sheer gospel of hate based on a fantastic distortion of history. Moreover, the problem of reconstructing the map of Europe on nationalist lines was immensely complicated by the fact that over most of Central and Eastern Europe linguistic areas correspond to no natural geographical frontiers and are in many cases inextricably intermingled. The full national ideal of one race could be achieved only by the suppression of that ideal in others.

To no race was that problem presented in a more difficult form than to the greatest of the peoples of Central Europe, the Germans. At no point of its immense and irregular periphery does the boundary of the main German ethnic block coincide with natural geographic limits; at few even with historic political frontiers. Beyond these frontiers millions of Germans live in outlying colonies: in Czechoslovakia, in Transylvania, in Russia, and, largest and most important, in East Prussia. The solution which Bismarck found was a twofold one. On the one hand he built up, by Prussian arms and on the basis of Prussian ascendancy, a German Empire comprising the bulk of the German race in a nationalist state including only a very small minority of Poles, Danes, Frenchmen in Lorraine, and dissident Germans in Alsace. On the other, by expelling Austria from Germany, he left enough Germans in the reconstituted Austro-Hungarian Empire to enable the German element to maintain a dominant position over the Poles, Czechs, and other Slav races of the Austrian half, while, in tacit co-operation with them, the Magyars maintained an even more effective domination over Slavs and Rumanians in the Hungarian half. In this way the whole composite structure with its fifty million people, its powerful army,

and its tradition as a Great Power, was secured, by motives both of interest and of external policy, as a permanent ally of Germany. The sheer military power of the combination presently attracted other lesser states such as Italy, Turkey, and Rumania into its orbit, even when their ultimate interests or ideals were divergent or positively hostile.

It was a shrewd and statesmanlike scheme. But it had two great elements of weakness. One was the annexation of Alsace-Lorraine, which meant at least two generations before France could forget her loss or Alsatians and Lorrainers their old allegiance. The other, bound to get worse and not better with time, was the inherent incompatibility of the new Austro-Hungarian Dual system, if not indeed of the Austro-Hungarian Empire as such, with the growing nationalism which was increasingly infecting Czechs, Poles, Rumanians, and South Slavs both within and without its borders. Nevertheless, by prudent diplomacy, so long as Bismarck remained in power, and throughout by the strength and prestige of their armies, the Germanic Powers were able to preserve their peace and to flourish for over forty years. In 1878 Austria-Hungary, with British good will, was even enabled to enlarge her territories, and, in the end, aggravate her problems, by the occupation of Bosnia-Herzegovina. Thirty years later the conversion of that occupation into annexation afforded the last occasion on which the undisputed military predominance of the Central Empires was able to preserve the peace, though by then this country was already committed to the side of their opponents. It is essential to remember that for the whole of the forty years, from 1871 to 1911, the peace of Europe was based on the armaments of the Central Powers. At any moment during that period France would have felt justified in going to war in the name of restitution, and Italy, Rumania, or Serbia in the name of national unity, if the chances of success had not been so clearly against them.

In 1911 Italy, by her unprovoked attack on Turkey, set the train to the events which precipitated the Great War. Turkey's weakness was the signal for the Balkan states to unite and fall upon her in order to free their subject kinsfolk.

By the end of the two Balkan Wars the whole European situation had been completely transformed, and transformed to the prejudice of the Central Powers. Turkey, of recent years regarded as practically an ally, and valued as a great military Power, was practically off the map of Europe. Bulgaria, whose general leaning had been Austrophil, was crushed. Rumania, an ally, had shown her indifference to the interests of the alliance by falling upon Bulgaria as, indeed, Italy had shown hers by attacking Turkey. Serbia, politically Austria's greatest danger, but hitherto regarded with contempt, had suddenly emerged as the possessor of an army equal in fighting capacity, if not in numbers or equipment, to any in Europe. That she would at the first good opportunity turn upon Austria, as she had turned upon Turkey, seemed certain. That, meanwhile, the South Slav agitation would spread in all the southern provinces of the Dual Empire was no less evident.

What should have been the policy of the Central Empires in face of this weakening of their position and of the menace which confronted them? The first and most essential step was at all costs to remedy the fatal blunder of unnecessarily driving England into the enemy's camp by the threat to her security at sea. Yet however clearly and avowedly the naval competition might have been called off, time was needed for such a change in policy to have its effect. England had been slow and reluctant to believe in German enmity. But ten years of German shipbuilding and of German diplomacy had created a deep-seated suspicion which could not be eradicated in a moment.

Meanwhile, the soundest course was to strengthen German and Austrian armaments on land, and to secure all the goodwill possible from every Power not irrevocably committed, as France and Russia might be regarded as being committed, to the attack. Germany had not yet begun to make anything approaching the sacrifices made by France to maintain her army. Her military service had remained at two years while France had raised hers to three. She enlisted only 42 per cent of her youth as against over 60 per cent in France. Her wealth and industrial power were far superior. By strengthening her army she could at

least gain time: time to allay England's suspicions; time to help France to forget Alsace-Lorraine and to weary of her sacrifices; time for Turkey and Bulgaria to recover; time for Germany to regain her hold over Italy and Rumania; time, perhaps, for the revolutionary forces to grow in Russia.

There was a further and more enduring solution which might, just conceivably, have been found, given enough time and strength to enable it to be put into execution. That was a federal reconstruction of the Dual Monarchy on a basis which would have met Czech and South Slav aspirations. The Archduke Francis Ferdinand was known to incline to that solution, and the fact that Serbian extremists dreaded his accession to the throne sufficiently to plot his assassination, shows that it might have had in it the elements of success. But it is doubtful whether anyone in either half of the Dual Monarchy possessed the resolution or power to carry through such a drastic reform in the teeth of German opposition in Austria and even more determined Magyar opposition in Hungary. In any case, this—or, indeed, any general reorientation of policy—was the last thing thought of as an answer to the Serbian victories and to the Sarajevo murder.

The one idea which seems to have dominated the minds of the Great General Staffs at Berlin and Vienna, and through them of their governments, even before Sarajevo, was that of a preventive war. Serbia was to be humiliated, and, if necessary, crushed, before she was ready to take the aggressive herself. If this could be done as an isolated operation by Austria, so much the better. If Russia intervened to help her Slav kindred and were joined by France, then Germany would step in. That this should happen soon, before Russia's railway system was further developed and her mobilization arrangements correspondingly improved, was desirable from the point of view of the German General Staff, whose plan was based on a lightning knock-out blow at France through Belgium, leaving Russia to be held by Austria and dealt with afterwards. It was a purely military scheme, making no attempt at co-ordinating strategy with policy and no allowance for the moral and political reactions of taking the responsibility of precipitat-

ing the long-dreaded European War or of violating Belgian neutrality. Above all, it left England entirely out of the picture. The German Foreign Office had taken our manifest anxiety to improve Anglo-German relations as simply a sign of weakness and of our hankering to be quit of any obligations to France or Russia. The soldiers seem to have thought that our intervention at sea could make little difference to a war in which France would be disposed of in the first few weeks, and that in such a war our participation on land could only be negligible. In any case the Emperor and his political advisers seem to have disbelieved in the possibility of our going to war.

They had good reason, on the face of things, to justify that disbelief. If our foreign policy had of recent years aligned itself with France and Russia, we had taken no corresponding measures in the military sphere to show that we really meant to take part in any continental war. Lord Roberts's campaign for National Service, which would have given us at any rate the cadres and the equipment on which to build a large conscript army in an emergency, had been treated with contempt by the government and was not espoused by the official leaders of the opposition. Even Mr. Arnold-Forster's scheme, which would have furnished a much larger short-service army on mobilization, had been dropped. His successor, Lord Haldane, had been content with giving an improved divisional organization to such forces as we could mobilize as a by-product of our existing arrangements, under the Cardwell system, for training our oversea garrisons, and with a corresponding improvement in the organization of our Volunteer Force, rechristened as the Territorial Army. The great majority both of the Cabinet and of its supporters in Parliament were known to be for peace at almost any price. Any combination between the less pacifist minority and the Conservative opposition seemed ruled out by the fierceness of the Irish controversy, which was rapidly reaching the verge of civil war.

The conclusions German observers drew from these facts must have been confirmed, in their eyes, by the British Foreign Minister's attitude during the critical days that preceded their decision to force the issue. Of the sincerity

and earnestness of Sir Edward Grey's desire to preserve the peace there can be no doubt. But the one word that might have preserved it, namely that if Germany and Austria were out to crush Serbia or to invade Belgium they would bring us into the War against them, he would not, or could not, say. On the crucial issue which had been threatening to arise for years, which was implicit in the whole policy he had pursued from the day he took over the Foreign Office, he had no notion where he stood with his own colleagues or with Parliament. He could plead for peace, but when asked what England would do he could only beat about the bush. The ambiguity of his replies could not but convince the Germans of the correctness of their belief that we would not fight, and that we meant to wriggle out of any obligations we were under to France and Russia and even to Belgium. The most diabolical ingenuity could not have been more successful in luring Germany to her destruction than Grey's honest but evasive fumbling for peace.

Against that it may well be said that if he failed to utter the word that might have averted war, he at least made certain of one thing: that the sincerity of our desire for peace and our reluctance to enter the struggle should be manifest. The unity of the nation at home, the whole-hearted support of the whole Empire, and the good will of the United States, should all, in some measure at least, be set down to the credit of a policy which, if it failed to preserve peace, enabled us to enter the War with a good conscience. Here, too, the Kaiser and his advisers hopelessly misjudged the situation. Looked at through German spectacles the British Empire had long appeared to be in process of disintegration. It seemed natural to expect that the moment of England's entanglement in a great war should give the signal for armed revolt in India and South Africa, as well as in Ireland, and for an attitude of increasing detachment by the other Dominions. The world had yet to learn that the mighty and highly organized structure of the Central Empires was to find more than its match, in unity of spirit and determination, in the seemingly ramshackle fabric of a scattered group of nations linked together

by little more than community of sentiment and common principles of free government. Lord Durham had builded better than Bismarck.

## II. THE LEAGUE OF NATIONS

The Great War, in its purely continental aspect, was in essence a struggle for the rearrangement of the map of Europe on nationalist lines, more immediately for the partition of Austria-Hungary by its neighbours and for the recovery of Alsace-Lorraine by France. In that struggle the Central Powers were on the defensive, but sacrificed all the political and ultimate military advantages of their position to their infatuation with the idea of a preventive war. On top of that error Germany had made the fatal mistake, in pursuit of a fantastic dream of world power, of driving England into an association with France and Russia from which she would in any case have found it difficult to extricate herself with honour or safety in a crisis. When the actual crisis came the German handling of the situation and, in particular, the violation of Belgian neutrality, made our abstention impossible.

The War was not brought about by economic rivalries. At no time in its history had Europe been more prosperous. Germany, above all, was advancing, by leaps and bounds, to a position of industrial supremacy over all other nations except the United States. The capitalists of Europe were as genuinely anxious for peace as the Socialists, and with even better reason. Neither counted in these issues as compared with the great mass of their fellow-countrymen to whom their particular national idea mattered far more than any social or economic theory. In one of the old Home Rule debates the late Mr. Tim Healy was interrupted, when he spoke of Ireland as a nation, by a questioner who asked him to define what he meant by the word. "A man's nation is what he is prepared to die for," he replied like a flash. The War came because Germans and French were each equally prepared to die, and make each other die, in order that Alsace-Lorraine should be part of their nation; because Serbs and Magyars were equally prepared to die for their

conviction that Croatia was an integral part of Greater Serbia or of the domains of the sacred Crown of St. Stephen. Between these opposing ideals—so long as they retained their hold on men's minds—there could be no reconciliation. There was only manœuvring for position.

Nor was the War brought about by armaments. The armaments of Europe were only the outward expression of the determination of each nation to maintain its position, or to achieve its ends. So long as the preponderance of armed strength lay with the Powers interested in the maintenance of the *status quo*, in other words, with the Central Empires and Turkey, so long was peace preserved. It might have been preserved longer—long enough, perhaps, for many of the factors of the situation to be transformed—if Germany and Austria had been content patiently to increase their armies and remain on the defensive, instead of seeking the perilous short cut of war. What is true, no doubt, is that the temptation to seek, or accept, the short cut was increased by the burden of armaments on governments and parliaments unaware how light those burdens were compared with those which their impatience was destined to impose upon them. But that does not alter the fact that it was the conflict of ideals which created the strain, and which led from the costly competition of budgets to the costlier contests of the battlefield.

Equally beside the mark is it to attribute the failure to preserve the peace to the defective methods of the old diplomacy or to the absence of democratic institutions in Germany or Austria. There is nothing to show that a more democratic government in either of these countries would have refused to listen to the urgent advice of its general staff. Nor were democratic France, democratic Italy, or democratic Serbia so markedly reluctant to join in the fray. As for the diplomats, if British diplomacy was well meaning but without the precision which might have saved the situation, or if German diplomacy had alarmed and irritated Europe by its aggressiveness and clumsy cunning, these were but reflections of national temperament which would have been displayed whatever the machinery, and whether the discussions were secret or open.



Least of all is there any justification for thinking that such a machinery as that of the League of Nations, if it had existed before the War, would have made any real difference to the situation. On the vital issues which led to war the League would have been bound officially to accept as its basis the territorial *status quo* which half its members were determined to alter, and could alter only by force. The realities of the situation would have been shirked then as now. Nor could the League have prevented, any more than it does to-day, the formation of groups of nations drawn together by common ambitions or common fears. It is difficult to see what it could have done that was not done, so long as it could be done, by special conferences, as at Algeciras on the Moroccan question, or in London after the Balkan War. The most that can be said is that it might possibly have proved easier to convene a special session of the League, if it had existed, at the end of July 1914 than it was to summon such a special conference, and that at such a session the British Government might have been forced to take up a more definite line. It is at least equally possible that the negotiations would have come to a deadlock and that one or both groups of the Powers would have walked out of the League, as their armies started marching.

Once war broke out it opened up all the issues postponed by armaments and diplomacy for over a generation. Almost all the nations that had territorial aspirations or fears were drawn into its orbit, as well as others less directly affected, and thereby contributed to the magnitude and duration of the conflict. Even so the War might well have been far shorter and far less costly in life and treasure but for a whole series of factors, some purely fortuitous, some temporary, which conspired to prolong it. If the original plan of the Central Powers had not miscarried, both in France and in Galicia, or if they had stood on the defensive in the West and concentrated against Russia, they might have gained an initial advantage which would have deterred Italy from joining in and have forced an early settlement of the continental situation in their favour. On the other hand, if only we had got through the Dardanelles, the War might

well have been over by 1916, if not before. As we were checked Italy stepped in. As Russia collapsed America took her place. Fortune played her game with both sides as the Gods played it with Greeks and Trojans of old.

Again, the whole organization of the armies of Europe had developed on a system which, on the crowded area of the Western Front at least, gave the defensive an enormously increased advantage over the offensive, and made decisive results almost impossible even at the most disproportionate cost in casualties. At the same time the armies, on both sides, were commanded by elderly men bred in the ideas of 1870, and determined to seek victory where it was hardest to secure, and by the weapons that were least fitted to secure it. There was a certain long, costly, and inconclusive war once waged between Russians and Turks which Carlyle, with Frederick the Great's campaigns in mind, contemptuously dismissed as a "war between the blind and the purblind." The title would not be inappropriate to most of the strategy of the Great War on both sides.

At last the end came. Within a few days of each other Turkey and Bulgaria were smashed. The Austrian armies collapsed and scattered to their homes. The German line in the West, though forced to retreat and sorely hammered, was still unbroken. From the military point of view the Germans could still have given the Allies many months of costly operations before they reached the Rhine, and might have reconstituted some sort of defensive line round German Austria and Bohemia, while they bargained for terms. But years of semi-starvation, a growing political anarchy, and a certain fundamental lack of fibre in the German temperament, put further resistance out of the question. From the Kaiser and Ludendorff downwards they threw up the sponge. They snatched at President Wilson's Fourteen Points, as if their vague verbiage could protect them from the consequences of unmeasured defeat. They accepted terms of armistice which surrendered the last vestige of any power of negotiation.

It is absurd to suggest that under such conditions, and after such sacrifices, the victors could have shown a detached and studied moderation and framed a peace which would

have left no resentment, no seed of future quarrel. The very principle of nationalism to which they stood committed involved the ruthless dismemberment of Austria-Hungary as a historic and economic unit, and the surrender to Poland of almost all that Frederick the Great had once won for Prussia. Nor, where racial boundaries were hard to define, or clashed with obvious commercial or defensive considerations, was it possible to prevent meritorious and victorious Allies, who were in most cases already in occupation, from getting rather more than strict and impartial "self-determination" warranted.

It is easy to suggest, for instance, that it would have been the part of statesmanship to have let the dismemberment of Austria-Hungary stop short at the detachment of the Yugoslav, Italian, Rumanian, and Polish areas of the Dual Monarchy, and to have converted the rest into an Austro-Czech-Hungarian federation. But was it possible to deprive the Czechs of their status as an independent sovereign state which had already been conceded? Similarly it is easy to say that the separation of East Prussia from the rest of Germany by a belt of Polish territory was a humiliation as intolerable to Germany as ever the loss of Alsace-Lorraine had been to France. But on every argument of linguistic self-determination, as well as of historic right, the Polish claim was incontestable, even if it did involve reducing East Prussia to its original status of a German oversea colony.

Equally difficult was it for the victors to face the fact that the world's monetary system was quite incapable of providing for the transfer from their enemies of compensation even remotely commensurate with the expenditure which they had nominally incurred, or for the settling of their obligations as amongst themselves. Neither the peoples, nor even their Governments, had yet begun to grasp the difference between payment inside a country and payment to another country: to realize, on the one hand, how small, relatively, was the net loss represented by the enormous figures of the internal war expenditures, and, on the other, how difficult it would be to transfer even a fraction of those figures from one country to another. If they had they might have decided to impose a system of

tribute in kind, so worked out as to involve the minimum of interference with the industries and employment of the victors. To plan out such a system would have been difficult, but not impossible. The restoration of the devastated areas in France is the most obvious example of what might have been done. They might even have done what Foch and the soldiers desired, and annexed all Germany west of the Rhine. But to make sure of such a policy it would have had to be accompanied, as Nazi Germany contemplates accompanying her next victory, by the forcible ejection of the existing population and by recolonization.

The easiest form of reparations, indeed, was the transfer of undeveloped Colonial territory, with populations more or less indifferent as to what white men governed them, and with reasonable provision to secure them fair treatment. This was done and represents, for France and England at least, some real compensation for their sacrifices. Only time can prove the value of that compensation. But I believe it will be much larger than is generally assumed, just as the real cost of the War has always been enormously overestimated. In any case the futility of the Allied attempt to secure adequate monetary reparations affords no support for the Norman Angell paradox that it is impossible, under modern conditions, for any side to gain by war.

The one person who at that moment had the power to exercise a moderating influence on the victorious Allies, and strengthen the foundations of future peace, was President Wilson. Circumstances invested him with an unprecedented authority. His one desire was to use it in the best interests of mankind. Unfortunately, he was ignorant, unpractical, and conceited, the slave of his own phrases, and, in particular, of some vague conception of a League of Nations which, based on democracy and the self-determination of its members, was to maintain the peace of the world. To see this dream carried out he was prepared to give way on all the issues on which he could have exercised a practical moderating influence, and his colleagues, by spatchcocking the constitution of the League into the German Treaty, were able to fool him to the top of his bent.

It does not seem as if President Wilson came to Paris with any clear idea of what he meant by a League of Nations. In the end a scheme of very composite origin was hatched out. The main groundwork of it was planned on the lines of the British Imperial Conference, a purely consultative body. But the influence of lawyers like Lord Phillimore and Lord Cecil led to the inclusion of definite "sanctions" against the Covenant-breaking state which was to become "*ipso facto* at war with all the other Allied States." The French were even prepared to give this conception a logical conclusion by the creation of a League General Staff, and insisted upon embodying in the Covenant specific obligations for the maintenance of the new territorial order which could only be effective if the League had, in fact, been organized as a new world super-state. This fundamental inconsistency of purpose runs through the whole "constitution" of the League, which is, in effect, a façade without a building behind it, an elaborate federal scheme under which no decisions are possible except by unanimity, and are then decisions only in the sense that those who feel so disposed may act upon them. From the outset the super-state façade was sufficient to deter the United States from joining a League which their own representative had imposed upon the rest of the world. On the other hand, this same façade encouraged all the unpractical enthusiasts in this and other countries to see in the League the beginning of a new world order, and to attribute to it powers which it was never capable of exercising.

The idea of a standing conference of the nations to promote mutual understanding, and so mitigate the danger of war, was one which had much to commend it. Experience may, perhaps, have indicated that for many purposes the inclusion of the world at large was a mistake, and that provision for some sort of geographical or group subdivision would have been an advantage. The same experience has also shown that in some respects, at any rate, the methods of the old "secret" diplomacy had definite advantages over those of the open conference method. The professional diplomat, trained to understand the mentality of the nation he is dealing with, can translate the true mind and purpose

of his own country to another far better than the politician whose whole thought has been attuned to the temper and instincts of his own fellow-countrymen. Dealing with matters confidentially, he can speak frankly and at the same time discuss, without prejudice, concessions which, announced publicly, would wreck all negotiation. The politician speaking in public can give away little except platitudes, with the result that the atmosphere of such a body as the League of Nations tends to be dangerously unreal and insincere. As between honest secrecy and public insincerity, there is much to be said for the former.

These, however, are minor defects in an institution which, within its proper limits, has proved itself a most valuable factor in the intercourse of nations, both as a means of bringing about more direct personal contact between statesmen, and of creating an international public opinion in favour of peaceful and reasonable solutions of differences susceptible of being bridged over or adjourned, as well as providing a standing machinery and recognized procedure for dealing with questions of that character, and a convenient focus for all kinds of beneficial international activities. Nothing in these pages is intended to detract from the value of the League as an instrument for the promotion of international co-operation, or to suggest that this country or the British Commonwealth as a whole should not participate in its practical activities.

The extent to which the machinery of the League can be effectively used, not merely to encourage good will, but more positively to avert the danger of actual war, has been shown in such instances as that of the Greco-Bulgarian frontier incident in 1925 or of the more recent dispute between Yugoslavia and Hungary. These clearly confirmed the value of a system under which an international conference can be instantaneously summoned, or meets automatically within a few weeks of a dispute arising, and under which mediation takes the place of direct correspondence at a moment of national excitement. In neither of these instances, however, was there any real cause or motive for war beyond excitement over a regrettable incident, and the Governments on both sides were only too

glad, at heart, to be helped to get out of the difficulty. Similarly, in the last few months the League machinery has been most effectively employed in dealing with the various problems arising out of the Saar plebiscite and for securing order while it was being carried out. In instances like these the League was not introducing any new principle, but only doing under a more regularized procedure what had been not infrequently done as the outcome of special international conferences or discussions before the War.

The trouble has been that the statesmen who framed the Covenant of the League and embodied it in the Peace Treaties were far too inclined to delude themselves and the world with the idea that they had devised an effective scheme for preventing war as such, without attempting to face the real problems with which such a task is confronted. Accustomed to the loose platitudes of their own war propaganda, or of their domestic electioneering, they simplified all the diversified and complex issues which culminate in the use of force as between states into an elementary and easily ascertainable issue between an aggressor state and the victim of aggression. They took for granted the juristic conception, derived from the old dynastic days, of a state as a kind of landed proprietor, enjoying an indefeasible right to his property, and of each state, as a person, being the equal of every other. Last and most unreal assumption of all, they professed to believe that the new map carved out by the sword was based on a self-evident, permanent principle, that of democratic self-determination, which justified its maintenance against all change.

Unfortunately, the parallel between states and human individuals, in their nature and in their relationships, is dangerously misleading. Human beings are highly organized units of the same type, each clearly defined and separate from the other. They cannot be cut up into smaller human beings, or combined into larger ones. One man cannot annex the leg of another either by force or by propaganda. States, on the other hand, have no common normal structure, no natural stature, no boundaries save those which they maintain against each other. The boundaries and the units

themselves are continually shifting. There is no limit to the extent to which states can be combined into larger units or broken up into smaller ones. Their internal cohesion depends on a whole variety of principles—military force, loyalty to a ruling family or to a type of constitution, religion, language, political theory—and the changing strength of these principles involves a continual rearrangement which, just because it raises such deep-rooted issues, is rarely accomplished except by violence.

From this point of view there is no essential difference between external war and internal revolution. The two, in the very nature of things, are continually interacting. The religious wars of the sixteenth and seventeenth centuries, the French Revolutionary War, the whole series of European nationalist wars from 1848 to 1918, were essentially wars of revolution and reconstruction in which forces from within and without each state co-operated to bring about a new scheme of things, and in which the true aggressors were not states but ideas. For the moment the map of Europe has been settled, more or less consistently, on the basis of linguistic nationality. Already the moral foundations of that settlement are being undermined. Bolshevism and Nazism have raised new lines of cleavage or cohesion which may some day prove more potent than race or language. New political entities are taking shape based on the constitutional union of wholly different nationalities, such, for instance, as those of the Little Entente. Who in all this shifting play of forces is to define what constitutes aggression, or on what principles is any court of arbitration to decide between contending ideas of what should be the basis of a state?

It is enough to take some of the main articles of the Covenant of the League and apply them to any previous period of history to prove their futility. By those articles—or for that matter by the rules of any conceivable system of arbitration—we should clearly have been bound, in the course of the last century, to maintain the integrity of Turkish territory throughout the Balkans, of Austrian territory in Venice and Lombardy, of King Bomba's dominions in Naples and Sicily. In almost every one of



those cases our own sympathies at the time were, in fact, with the "aggressor." More serious still, the moral judgment of history to-day is, as often as not, with the aggressors of yesterday and not with the victims of their aggression. If the League had existed in 1912, and had, in fact, been capable of preserving the peace and stereotyping the map of Europe as it then was, would that have been a permanent solution to be applauded? On the other hand, can anyone imagine that either the Hague Court or Article 19 of the Covenant (which enables the League, if unanimous, to consider possible revisions of the *status quo*) would have been effective to unify Italy or to deal with the underlying issues of the Great War?

The problem of peace or war is far more difficult and goes far deeper than the essentially superficial mind of a President Wilson could fathom. It is an immensely complex problem. It involves the question when and how far the use of force is essential to the maintenance of human society. It involves the question of the right of the state to employ that force and to demand the sacrifice of the life of the individual citizen for the present and future welfare of the whole. It involves the question both of the relationship of states to each other and of their internal structure—of aggression and defence, of rebellion and its suppression, of revolution and its justification. Its ultimate solution will be found when the whole world is organized in a single state whose constitution is so generally acceptable that no section of it is prepared to change that constitution by force or to resist the execution of the central authority's decrees. We are not there yet.

Nor are we likely to get there by any mechanical legalistic scheme for the world as a whole which takes the existing states, such as they happen to be at the moment, as ultimate units and, regardless of their differences of stature and structure, combines them in a quasi-Parliament, with no responsibility and no executive, for the maintenance of peace in the abstract. What is needed is some organic conception by which the existing anarchy of sovereign states may gradually be reduced and a more unified world built up. To give that conception life there must be positive

ideas and ideals, which will help that process of building up, which will reduce the multiplicity of units, which will eliminate friction surfaces, geographical, economic, sentimental. They must be simple ideals, capable of appealing to the masses, linking up with their older ideals, loyalties and patriotisms, instead of ignoring them. They must correspond to the practical defensive and economic needs of the day.

The ideal of a single world state may some day have real life in it and find its accomplishment. To-day its make-believe counterfeit only stands in the way of progress. That progress must be by gradual evolution, both of organization and of ideas, from the smaller to the greater and more comprehensive. The next step in evolution is clearly towards groups of nations based on some natural principle of cohesion. History, tradition, race, language, similarity of political outlook and institutions, complementary economic interest, finance, geographical proximity, defensive convenience—any or all of these may combine to furnish the practical and the ideal starting-point of the movement towards establishing a higher unity.

To satisfy modern economic needs such a new unit should cover a range of latitude sufficient to enable it to supply most of the products of the tropical and temperate zones within its own territories. It should have a home market large enough for the most efficient forms of modern mass production, i.e. one of at least 100,000,000 people, and preferably two or three times that number. It should be large enough, and sufficiently highly organized, to sustain its own financial and currency system without depending unduly on external resources or on foreign trade. To meet modern defensive needs, especially against air attack, it should have as few open land frontiers as possible, and the extent of its territory within, say, two hundred miles of a possible enemy should, if possible, comprise only a small proportion of the whole. If geographical conditions alone counted, then the units of the future might well be the great continents into which the world is naturally divided, and the problems of defence, at any rate, would be enormously simplified. But geography is only one of the factors,

and historical, racial, and sentimental factors are bound to exercise an even more potent influence. The main outlines of the future grouping are, indeed, already showing themselves: the British Empire, the United States with Central and Southern America, Europe with its colonies, the Eur-Asian Soviet system, Japan, and China—these would seem the obvious main units in the next stage of world organization.

Of these the British Empire is the largest in area and population. It starts with the advantage of a common sovereign and of all the loyalties connected with that common authority and its external symbols, of a measure at least of common citizenship, of a large element of unity of race and language, of a dominant constitutional and legal tradition, and a highly developed network of commercial and financial interests. Its geographical structure, indeed, is only intelligible if we remember that it is, historically, the outcome of sea-power, and that only sea-power can maintain it in future. Even apart from the sea, it is vulnerable at more than one vital point: by air from the European continent; along four thousand miles of its open frontier with the United States; along its Asiatic front from the Mediterranean to the Himalayas. Only the highest measure of statesmanship, both in its internal and in its external affairs, combined with an adequate maintenance of its defensive strength, will enable it to survive the coming century. If it survives—as I firmly believe it will—it may well furnish the nucleus of the world organization of the future. Meanwhile its constitutional and economic development is likely to afford precedents which will be followed by other groups. We seem destined to be the pioneers in the new evolution into "Empires" or "Commonwealths" of freely associated partner states as in other fields of constitutional experiment.

Of the other units of the future the one that most immediately affects the problem of peace and war is Europe. At first sight its racial and historic divisions would seem to present almost insurmountable obstacles to any form of constitutional union. But the very fact that those divisions spell the certain recurrence of war at comparatively frequent

intervals—war under the most unpleasant conditions owing to the smallness and proximity of the states concerned, and the density of their population—and that meanwhile they stand in the way of any effective development of Europe's economic resources, are tremendous practical forces making for unity. In face of them the racial emotions and ideals which have shattered it may relapse, like the religious passions of an earlier day, into a more tolerant acceptance of difference. On the other hand, the ideal of Europe as an entity, going back to the Holy Roman Empire, and to the unity of mediaeval Western Christendom, may well grow in conscious self-differentiation from the two Anglo-Saxon world powers and from the un-European, anti-Christian Soviet power to the East, as well as under the impulse of the spiritual forces striving for peace and of the economic forces aiming at prosperity.

Such a concrete evolutionary vision of a better world structure can only develop when the public, here and elsewhere, has been cured of the abstract and mechanical conception of a universal organization to prevent war at large with which it was saddled by President Wilson and his school. Years of disillusionment have been needed to teach us that such slogans as "a war to end war" or of "making the world safe for democracy" could not be made effective simply by providing offices and a meeting-place at Geneva, and pretending that we had created a new world authority with real powers. During those years the earnest desire of the public to believe what they wished to be true, and the fear of politicians to be thought reactionaries and cynics, have made it almost impossible for anyone to express doubts about the League without grave scandal, and have fostered and maintained a general conspiracy of make-believe about Geneva and all its works.

There is a story of Hans Andersen's in which a charlatan comes to the Emperor's court professing to make the most wonderful robes in the world. There are no robes, in fact, but by declaring that they have the magic quality of only being visible to those of blameless life and clear conscience, he bluffs Emperor, courtiers, and crowd into pretending that they are there and gushing about them, until, at a great

public procession, a child cries out: "Why is the Emperor walking about without any clothes on?" The League of Nations, as a body with authority, capable, on important issues, of coming to decisions and executing them, has had no more real existence than the Emperor's new clothes. But for many years now it has been blasphemy for any public man to query its power to solve all problems, and with the repeated proof of its impotence staring them in the face, statesmen, in this country at least, still feel bound to reiterate, with ever-increasing emphasis, their unquestioning faith in its efficacy.<sup>1</sup>

Another characteristic example of the power of make-believe, and typically American in its innocent hypocrisy, was the Kellogg Pact of 1927. By that document the Powers were invited to pledge themselves never "to use force as an instrument of policy." To have pointed out the difficulties and absurdities implied in such a pledge so long as there was no world power which could enforce the decisions of the Hague Court or of the Council of the League, would have been discourteous, and might have been misinterpreted, at home or abroad, as a sign of an aggressive disposition. So some fifty-six nations cheerfully signed the Pact as a gesture to which none of them attached the slightest importance. Only the United States and Great Britain took the Pact sufficiently seriously to exclude from its obligations certain areas in which they felt they were more particularly interested—in the American case the Western hemisphere, in our case an undefined region adjoining our line of communications to India. Yet even this instrument, already forgotten by its signatories, is treated by some of the more extreme illusionists as having, in fact, outlawed war and put an end to the whole doctrine of neutrality.

Meanwhile, the supporters of the League themselves have continued to be divided into two opposing schools of thought. On the one side have been those who have taken

<sup>1</sup> Since this chapter was written, the present Government has had the courage in a noteworthy White Paper (Cmd. 4827) to admit that it is a "premature assumption that nothing is required for the maintenance of peace except the existing international political machinery, and that the older methods of defence . . . are no longer required . . . the international machinery for the maintenance of peace cannot be relied on as a protection against an aggressor."

the Covenant in its literal sense and have endeavoured to convert it into something more effective with greater power of decision and of collective action. They have included the French in so far as they have looked to it as an instrument for guaranteeing and maintaining the European *status quo* established by the Treaty of Versailles, as a collective treaty by which a satisfied France might be rendered secure against a German war of revenge. But they have also included a large body of enthusiasts, especially in this country, who really go much farther, and, in spite of every discouragement, continue to persuade themselves that it is possible to create an organization based on the forcible maintenance of what they call "collective peace," without first creating an effective political world super-state. This view, of which Lord Cecil is the most distinguished representative, enjoys the powerful support of the dominant section of that wealthy and widely represented organization the League of Nations Union, as well as the official endorsement of the Socialist Party. The attempt has, indeed, been made, and with no small measure of success, through the medium of a so-called Peace Ballot, to secure for it something in the nature of a mandate from the general public.

On the other side have been the representatives of the more illogical but more typically English school, which has throughout tended to ignore those clauses of the Covenant, like 10 and 16, which involve definite obligations for the maintenance of the territorial *status quo*, and for the forcible maintenance of peace, and has trusted to the more general influence of pacific intentions, public discussion, and friendly intercourse at Geneva. The English school was strong enough to wreck the Geneva Protocol of 1924, which would have involved a very definite stiffening up of the obligations of the League and of its power to enforce peace by the waging of collective war. It has never been strong enough, or quite honest enough, to press for such an alteration of the constitution of the League as would frankly acknowledge that it is only a standing conference, a Round Table of the Nations to promote better understanding and facilitate the amicable settlement of differences.

No one in recent years has stated the case against the

conception of the League as an instrument for the forcible prevention of war more effectively than General Smuts in a remarkable speech delivered in London last November:

"I cannot visualize the League as a military machine. It was not conceived or built for that purpose; it is not equipped for such functions. And if ever the attempt were made to transform it into a military machine, into a system to carry on war for the purpose of preventing war, I think its fate is sealed. I cannot conceive the Dominions, for instance, remaining in such a League and pledging themselves to fight the wars of the Old World; and if the Dominions leave it, Great Britain is bound to follow. I cannot conceive anything more calculated to keep the United States of America for ever out of the League than its transformation into a fighting machine, pledged to carry out its decisions by force of arms if necessary. And remember the United States has still to join the League before it ever will be its real self. Membership of the United States was the assumption on which the League was founded; defection of the United States has largely defeated its main objects. And the joining up of the United States must continue to be the ultimate goal of all true friends of the League and of the cause of peace. A conference of the nations the United States can, and eventually will, join; it can never join an international War Office."

General Smuts was, perhaps, hardly accurate in his recollection of what passed in 1919, for the element of coercion, even if only in the background, was very definitely contemplated by President Wilson and the other framers of the Covenant. But there can be no doubt as to the practical soundness of his conclusion. In the same speech he pointed out that the objections to an unlimited obligation to go to war anywhere in order to preserve peace everywhere do not necessarily apply to specific arrangements between particular Powers which on grounds of their special situation and interest choose to enter into them. That, in fact, is the alternative policy to the tightening up of the Covenant which we adopted when we rejected the Geneva Protocol of 1924 and negotiated the Locarno Treaties. The original motive of those treaties lay in the desire to find some way of meeting the French insistence on military security as the only sure guarantee of peace and as the essential condition precedent to disarmament. The original Anglo-

American guarantee of the French eastern frontier had lapsed because America was not prepared to implement it. The Foreign Office plea that it should be replaced by a purely British guarantee or defensive alliance with France was rejected by the Government of the day, for the same reasons that had led to the rejection of the Geneva Protocol, namely the general repugnance, at home and still more in the Dominions, to our undertaking definite commitments for indefinite eventualities. An ingenious solution of the problem—and incidentally also of the problem of bringing Germany into the League—was found by making our engagement in respect of a single stretch of frontier and making it equally to both sides, thus definitely reserving our detachment in general European controversies.

The Locarno Treaty has been vigorously criticized as involving new and dangerous liabilities on the European continent. As a matter of fact it was a step—in the circumstances—in the process of disentangling ourselves both from Europe and from the obligations of the Covenant of the League. The actual obligation taken in respect of the Franco-German frontier was not a new one. It went no further than the obligation already undertaken under the Covenant to guarantee all the frontiers of all the members of the League against aggression. But by re-defining our obligation in connexion with one frontier we, in effect, gave notice that we did not regard ourselves as similarly obligated in respect of other frontiers, and we emphasized this by explicitly dissociating ourselves from the other Locarno Treaties which dealt with them. The region in respect of which we gave our undertaking is one which under modern conditions is little more than an extension of those Low Countries in whose affairs we have always declared our intention to intervene against aggression by a dominant Power. Our pledge leaves us free to judge for ourselves who is the aggressor, for if the circumstances were such that we should find difficulty in coming to a clear conclusion ourselves, the Council of the League would certainly never reach unanimity on the subject.

Lastly, the fact that we have declared that we shall only decide which side we shall fight on when the issue arises,



implies a disentanglement, not only of our foreign policy, but of our general staff policy as well, and should make impossible the kind of naval and military commitments which we incurred before 1914. The Locarno Treaty is, in fact, no more incompatible with a policy of general detachment from European affairs than was our undertaking with regard to Belgium for the greater part of the last century. The same applies no less to the proposed "Air Locarno" now under discussion as part of the attempt at a general European settlement. Substantially that proposal embodies no new feature beyond a recognition of the fact that, under modern conditions, an act of unprovoked aggression will naturally take the form of an air attack and can only be met in time by immediate air action, and that we, as also open to air attack, are entitled to a reciprocal guarantee from the other parties to the agreement.

Meanwhile the conception underlying the original Locarno Treaties, that of specific local undertakings for the maintenance of peace, or for mutual support, between particular Powers, has steadily developed in Europe. Some of these agreements, as for instance those made by Russia with her European neighbours, are merely treaties of non-aggression. Far more significant was the conversion, early in 1933, of the informal alliance of Czechoslovakia, Rumania, and Yugoslavia, the Little Entente, into a definite constitutional pact. Under this pact the three partners are pledged to pursue a single foreign policy and, so far as may be, to assimilate their military and economic policies so as to secure the most effective mutual co-operation. The Little Entente, with its Council meeting at regular intervals at the various capitals, is, in effect, a new Great Power in Europe. It may, indeed, be something far more important, namely the precursor and nucleus of the future European Commonwealth, playing the same part in its inception as the original league of the three little Cantons of Uri, Schwyz, and Unterwalden once played in the origin of the Swiss Confederation.

The example of the Little Entente was followed in the somewhat looser organization of a Balkan Pact, in which two members of the Little Entente, viz. Rumania and

Yugoslavia, are linked with Greece and Turkey. Since then Signor Mussolini, confronted by the menace of a German annexation of Austria, has not only drawn Austria and Hungary into close political and economic co-operation with Italy, but by the Rome agreement with France has aimed at bringing the whole of the French and Italian group systems into a single framework of mutual security. At the worst this new system, forming a continuous chain of states from Antwerp to Angora, should serve as an effective barrier to German aggression. But the policy which underlay its creation will only reach its full fruition if Germany can be persuaded, as an equal, to join herself, and thus to convert a purely defensive organization into the outline of the future European Commonwealth.

The League of Nations, as such, has had nothing to do with these developments, so pregnant with hopeful possibilities for Europe. Nor is there anyone who would suggest, after the Manchurian experience, that its machinery is likely to be called upon to cope with the problems that are confronting us in the Far East. There again the alternatives would seem to lie between some effective mutual understanding between the United States, Japan, and ourselves, and the poor second best of a defensive combination to restrain Japanese ambitions. In South America the attempt of the League to intervene, in a war which had been going on for three years, to the extent of suggesting that an ineffective arms embargo should no longer apply against Bolivia, only resulted in Paraguay shaking the dust of Geneva from its feet. If peace has since come about, it has simply been because both armies had fought each other to a standstill. As for Africa it is folly to imagine that Signor Mussolini's application of force for the satisfaction of his far-reaching ambitions in Abyssinia will evoke more than verbal protests from the League Council or from his fellow-signatories to the Kellogg Pact.

The fact is that as an instrument for forcibly maintaining the peace of the world, or for shaping its policies, Geneva has petered out. What is needed now is that the leading members of the League should have the moral courage to recognize the fact, and to give it a new and more fruitful lease of life

by frankly abandoning the pretence that it enjoys an authority and power which it can never exercise, and by boldly cutting out the dead wood of those articles of the Covenant by which that pretence has been sustained. As a Round Table and Clearing House of the Nations the League might yet succeed in securing that general adhesion which, so far, it has failed to secure, and might hope, on less ambitious lines, to occupy a steadily increasing sphere of usefulness in international relations.

### III. DISARMAMENT

Closely associated with the devising of machinery for the prevention of war has been the more specific effort to secure peace by general disarmament. Here, too, the cause of true peace has suffered much from loose thinking and from the almost hypnotic effect of the repetition of catch-words on public and politicians. A school of thought has developed, especially strong in this country, of which Lord Cecil has been the chief spokesman, and to which all who claim to be in any sense "idealists," e.g. clergymen, schoolmasters, politicians of the left, and "intellectuals" generally, have felt it good form to belong, whose doctrine might, without exaggeration, be summarized as follows: Wars arise out of the competition of armaments; consequently the more armaments can be reduced all round, both in quantity and effectiveness, the more assured the hope of peace; further that unless such a reduction can be speedily brought about the failure to achieve it must lead to a new race of armaments, the inevitable conclusion of which will be a new war even more widespread and infinitely more disastrous than the last, ending in the final ruin of Western civilization. In particular is it essential to suppress the private manufacture and sale of arms.

For all this there is, of course, very little warrant either in history or in common sense. It is no doubt true that the fighting services in each country normally judge their requirements by the standard set by others, and that there is a constant tendency, when not offset by political or economic motives, towards a competition in numbers and

up-to-dateness. Such a competition may involve heavy financial sacrifices and divert revenue from more desirable objects. It may, on occasion, create or strengthen mutual suspicions. Confidence in the strength of its own equipment may, at times, make a nation arrogant and disinclined to compromise. Where other conditions allow it mutual agreement, whether formal or informal, for the limitation or reduction of armaments, is, therefore, well worth securing on grounds both of economy and of good relations.

To go beyond that, and to treat armaments as in themselves a principal cause of war, is entirely to misunderstand the nature of the problem which confronts us. The causes of war, as of internal revolution, are to be sought in the conflict of ambitions, of interests, or of ideals. Armaments, as such, are merely the instrument by which peace is disturbed, or preserved, according as the predominance of force rests with those who wish to upset, or maintain, the existing order of things. So long as there are lawless elements in a community, or issues, domestic or international, for the sake of which men are prepared to use force, so long is armed strength, in some measure or other, essential to the keeping of the peace.<sup>1</sup> Where the existing state of affairs rests on widespread moral support and the issues of conflict are few, that measure of strength may be small. Where the *status quo* is seriously challenged more strength is required. The challenge and the reply normally take the outward expression of a competition in armaments which may either end, as in the case of the Anglo-French competition at the close of the last century, in a peaceful settlement, or, where the causes of conflict are too deep-seated, lead to actual war. But whether employed potentially in peace, or actually in war, armaments are only the symptoms, the material manifestation, of the will to maintain or change existing political conditions.

It was the strength of the Roman legions upon which rested the Peace of Rome, and all the prosperity and culture which for centuries flourished under it. When the legions

<sup>1</sup> "In the present troubled state of the world . . . armaments cannot be dispensed with. They are required to preserve peace, to maintain security, and to deter aggression." White Paper on Defence (Cmd. 4827).

failed Europe was plunged for a thousand years in anarchy, barbarism, and incessant warfare. Civilization and peace vanished from Britain when the Roman soldiers were called away. They would vanish equally from India to-morrow were the British Army withdrawn. The unquestioned predominance of the British Navy guaranteed not only our own peaceful expansion, but in large measure that of Western civilization generally, during the nineteenth century. As has already been pointed out, the preponderance of military strength enjoyed by the Central Empires preserved the peace of Europe for more than forty years before the Great War. On the other hand, it would be difficult to point to a single war in history which was brought about primarily or mainly by armaments, or by the competition of armaments, as such. The Great War, certainly, was not one of them. The best instance of such a war that I can think of, Frederick the Great's unprovoked attack upon Austria in 1740, no doubt had its immediate prompting in the desire to test the efficiency of the army which he had just inherited. But, in fact, even that was only a continuation of Prussia's traditional policy of territorial expansion, for the sake of which his father had built up the army which he was destined to use.

If armaments, as such, may be as essential to the preservation of peace as to the promotion of war, we need not devote much space to the consideration of the case for abolishing the private manufacture or sale of arms, or, to quote a typical piece of pacifist clap-trap from Lord Cecil, "the scandalous system under which men get rich by helping the nations to slaughter one another." If for a century the British Navy helped to keep the peace of the world, as well as our own, and, incidentally, to suppress the unspeakable horrors of the slave trade, then presumably those who built and armed its ships, whether working in private or in public shipyards, were engaged on a task of which they had every reason to feel proud. If, on the other hand, it were true that armaments in themselves are at all times and in all circumstances to be condemned, then it is as wrong for workmen to draw wages, or designers and managers to draw salaries, in government as in private employ. Nor is

there any essential moral difference between the profits derived by a shareholder from the efficiency of a private ordnance factory and the profit derived by the taxpayers from the efficiency of a Government arsenal.

So much for the logic of this particular pacifist obsession. In practice the limitation to Government arsenals of all manufacture of armaments—assuming the difficulties of definition overcome—would mean the necessity of maintaining a much larger plant organized purely for “war purposes,” and put a tremendous premium on constant readiness for war. Where should we have been in 1914 if British, and American, firms had not been available to “get rich by helping us to slaughter our enemies”? What, again, is to be the position of a small nation requiring a few destroyers for its defence? Is it to be compelled to create naval shipyards and arsenals at wholly disproportionate expense, and then leave them standing idle? Or is it to buy from some more powerful state and endanger its own independence? What of Abyssinia’s plight today?

That the interests of those who live by making armaments can on occasion be opposed to the public interest is obvious, and the danger of pressure being exercised upon governments to indulge in unnecessary expenditure in that direction may be a real one. But so is the danger of pressure from other interested parties to reduce taxation even at the cost of national safety and peace. Nor, when it comes to pressure upon Parliament, are dockyard constituencies noticeably less insistent upon an adequate Navy than those in which private shipyards are situated. In this country, at any rate, there is no reason to fear either corruption or excessive armaments as the result of the machinations of blood-thirsty capitalists. The most obvious opening for abuses lies in the temptation to armament firms to stimulate competition in armaments, or even encourage wars, between semi-civilized and barbarous communities. The civilized industrial nations have a duty, in this respect, to the world to exercise some measure of control over the activities of their own citizens, and no country has been more forward both in the advocacy and in the actual exercise of such control than ours. Unfortunately, it has proved by no means easy to secure the

unanimity of international action which alone can make such control effective.

To return to the main theme.

A somewhat different aspect of the question is raised when it is suggested that the limitation of armaments can serve, if not to prevent war, at any rate to mitigate its effects. Here it is necessary to distinguish clearly between restrictions which are only enforced or enforceable during peace, and those which it is hoped can be enforced during war, in other words, between the limitation of armaments and the rules of war. Mere lack of military preparation in peace certainly does nothing, of itself, to diminish the intensity or duration of war once it breaks out. The longest, bloodiest, and most costly war of the whole century between 1815 and 1914 was the American Civil War, which was fought between two entirely unprepared and unequipped combatants. The appalling costliness of the Great War, both in life and treasure, was largely due to a similar cause, namely to the fact that all concerned were unprepared and unequipped for the immense preponderance of defensive strength enjoyed by the armies of 1914. If only tanks and aeroplanes had been developed before the War to the point which they reached in 1918, the War might not have lasted many more months than it did years, and would certainly not have demanded a tithe of the casualties actually incurred. Of all the weapons responsible for the slaughter of those years, none was so deadly as the spade.

It is no doubt true that any factor that increases the relative strength of the defensive, even if it prolongs a war that has once broken out, may serve to some extent to discourage war by making aggressive operations more difficult and expensive. In that sense it may be suggested that the ruling out of certain categories of weapons as offensive would have the same effect as the strengthening of natural frontiers. Where these weapons are very costly and take a long time to construct, there is therefore a reasonable case, on the grounds both of expense and of discouragement of recourse to war, for arriving by agreement at some limitation of the size and power of these weapons, even if it is admitted that the limitation would disappear after war

broke out. It is on these lines that the British Admiralty have, at Washington and since, consistently shown their willingness to agree to reductions in the tonnage and armament of ships of war, and that the other British fighting services have suggested limitations to the size of heavy field artillery, tanks, and bombing aeroplanes. Such agreements will always be circumvented in one way or another—by increased numbers, by previous organization for rapid construction, by new weapons not provided for—when nations really mean war. But meanwhile they may have some real value as a contribution to peace as well as to economy.

It is by an extension of this argument that many believers in disarmament have concentrated on the abolition of all forms of aerial warfare. They point out that the aeroplane is essentially an offensive weapon, so much so, indeed, that many experts have maintained that the only effective answer to air attack is not defence but counter attack. They urge, further, that the bombing aeroplane is an inhuman weapon, indiscriminate in its effect, and calculated to inflict unnecessary suffering upon non-combatants. There are, of course, specific answers to these arguments. The havoc that aeroplanes may do has usually been grotesquely exaggerated. Technical developments are certain, in this field as in every other, sooner or later to bring defence in the air nearer to equality with the offensive. It is largely a question of detecting the approach of the enemy aeroplane in time. Even now this advantage of the offensive only applies at comparatively short ranges. A bomber that has to cross two hundred miles or more of enemy territory is no match at the end of its flight for an enemy fighter that has had full information of its approach. As for the alleged indiscriminate effect of bombing, it is, in fact, no more indiscriminate than long range artillery fire. There should be no insuperable difficulty in arriving at rules, generally acceptable and observable, by which the legitimate objectives of modern war, including munition factories, railway junctions, docks, etc., were definitely marked off from those areas in which the civilian population would enjoy comparative immunity.



There is, however, a more fundamental objection to the proposal to abolish aerial warfare. The aeroplane is not merely a novel engine of war. It is a form of transport which is becoming daily of more universal use. Its effect in breaking down national barriers and increasing mutual understanding between neighbouring peoples is bound to be enormous. Even more than in the case of the motor car, the wireless, or the long-distance telephone, its normal influence must be for consolidation and peace. To try to suppress it or hamper its development would be a fatally retrograde step. Yet it is admittedly impossible to abolish military aviation unless civil aviation is effectively controlled by some international authority with a view to preventing any one nation from developing a civilian air fleet of such preponderance in numbers or size or speed or endurance as might give it an overwhelming advantage in time of war. No one has yet been able to suggest how such an authority could be set up, short of the creation of an effective super-state, or how it could control aviation without fatally crippling its progress. One has only to think of the application of the same principle to the steamship, or the motor vehicle, to recognize its absurdity.

It is typical of the shifts to which public men have been reduced in order to show their zeal in the cause of disarmament that a British Government should have put forward such a proposal, even if only as a gesture which none of its members can really have either hoped or believed would be taken seriously by anyone else. This futile suggestion was, with a curious lack of any sense either of logic or humour, accompanied by a reservation in favour of aerial bombing for police purposes "in outlying regions." How any part of the world can be an outlying region in the eyes of a League of Nations which is world wide in its scope, and of which Iraq, India, and China are members just as much as England or France, was not explained. Nor was any argument advanced why if bombing aeroplanes are required by our needs in Iraq or on the Indian frontier they could be denied to the French or the Italians in North Africa whence they could be flown over to Europe in a few hours. It is occasional displays of this kind of

childish *naïveté*—our solemn advocacy on humanitarian grounds of the suppression of submarines which might blockade us and interfere with our blockading others, was another—that have given us, among our more logical Continental neighbours, an undeserved reputation for hypocrisy.

As a matter of fact the reservation itself was vital. Throughout the whole of the open arid or mountainous regions of the Middle East—in Palestine and Transjordan, in Iraq, Aden, Somaliland, on the Indian frontier—the aeroplane is to-day the indispensable foundation of civilized government. At an infinitely lower cost, with far less loss of life to friend or foe, with far greater humanity than any other form of preventive or punitive action, it keeps the peace of vast regions of the earth's surface for which we are primarily responsible. Civilization, from the very dawn of history, has always contended at a disadvantage with the barbarian on its frontiers or within its confines. The barbarian loves war for its own sake and is a better natural fighter; above all he is cheap, while the forces of civilization are expensive to raise, train, and equip. The one compensation civilization enjoys is when its superior technical and scientific knowledge provide its forces with more powerful weapons, and it is only by the fullest use of the latest scientific developments in warfare that it can prevent the barbarian from drawing level. The Afridi or Kurd of to-day has, for the purposes of fighting in his own country, drawn level, and more than level, with any forces we could have brought against him before the War. It is only by the use of the aeroplane that we can hold our own against him without being involved in expenditure which would threaten the breakdown of government from within. The problems facing the government of India or that of Iraq are sufficient in all conscience without lightheartedly presenting them with the alternative of military or financial collapse. And yet, driven forward by the logic of a foolish gesture, we have already intimated that we should not let our reservation stand in the way of an agreement.

Fortunately for us there is no prospect of an agreement. Fortunately also, perhaps, for the world generally, or at any

rate for Europe. So far from adding to the real terrors of war, which, as the last war showed, lie mainly in its duration, the aeroplane offers the best hope of quick decisions. It does so not, as is often suggested, because of the horrors which will be inflicted by air raids on non-combatants. The extent to which civilians can be massacred from the air (or are worth massacring from the military point of view), is usually absurdly exaggerated and, in any case, it should be possible to provide against this. It does so because the combatant who has first secured effective superiority in the air will have all the communications and rearward services of his enemy, including aerodromes, at his mercy. He will have reduced his enemy to the position of an army that has landed on a hostile shore and then lost command of the sea. The wars of the future, at any rate between countries so close to each other as those of Europe, may well be matters of weeks, even of days, rather than of months and years. Their cost in life and still more in buildings may be spectacular while they last, without making the sum total of that cost at all comparable with that which all combatant countries suffered in the long-drawn agony of 1914-18. The aeroplane may yet save mankind from trench warfare—from the horrors of the spade!

The aeroplane is not only destined to revolutionize the art of war, especially on land. It is also destined, in its military as in its civilian aspect, to revolutionize the politics of Europe. By reducing all distances, and by wiping out all natural boundaries except wide seas or deserts, it is bound to emphasize the absurdity, under modern conditions, of perpetuating the existing European system of small states, every part of whose territory can be reached within a few hours by enemy aircraft. It must, therefore, be reckoned as an ally to all the other forces, economic and political, which are making for the consolidation of Europe into a single political system, and in that sense as a potent factor in favour of peace and of the real, spontaneous disarmament which comes from the abandonment of rivalries and from reliance on mutual support against external dangers.

The reader may well ask at this point: if the aeroplane is to be justified as a modern invention calculated to shorten

war, what of poison gas? What of the wholesale dissemination of disease germs? The answer here lies largely in the field of what may be called the rules of war. At all times there have been certain generally observed rules, at any rate between combatants of a common civilization. Even in the late war it was not customary to poison wells, to bombard hospitals, to massacre prisoners or unarmed civilians. The general principle governing these rules has been the avoidance of inflicting suffering unnecessary to the immediate object of victory, or, so far as possible, upon others than the organized forces of the enemy. The rules will have to be modified to suit modern conditions. Women working in a munition factory clearly cannot claim to be exempt from the dangers of war. The old test of liability to bombardment, namely fortification, will have to be replaced by a more elaborate catalogue of legitimate objects or areas of attack. But the main principles will still apply, and for their enforcement in a system of rules and for the observance of those rules, it ought to be possible to create an effective international opinion. That, in my opinion at least, is a task to which a body like the League of Nations could devote itself with much more prospect of success than to any mechanical scheme of general disarmament.

Such a consideration might well lead to the ruling out of all methods of disease dissemination as inflicting general damage and suffering out of all relation to their direct military value. It might also, on the same principle, lead to the banning of some forms of gas, while allowing others. After all, there is nothing intrinsically more barbarous in the use of gas than of any other lethal weapon. Indeed, there could be no more merciful weapon of war than a purely stupefying or paralysing gas, just as there is no more merciful weapon against civil disturbance than tear gas. What immediate suffering and what bitter subsequent passions might have been avoided if General Dyer had only had tear gas at his disposal at Amritsar!

War can never be otherwise than terrible. For it is of its essence that it involves a contest of courage and endurance up to the point of death. But it is not true that war is

inevitably becoming more cruel and more barbarous, inflicting ever greater suffering and increasingly brutalizing those who take part in it. On the contrary, medical science has rendered it infinitely less cruel. The majority of casualties no longer die lingering deaths from festering wounds. They pass under the merciful anaesthetic and receive a care, and enjoy a hope of recovery, undreamt of in the past. War still implies killing and being killed. But in an increasing degree, as the fighting becomes more distant and impersonal, the emotion uppermost in the minds of those who take part in it is not the lust of slaughter but the acceptance of deadly peril as part of one's duty. That acceptance brings out some of the noblest qualities of comradeship and loyalty among those who serve together. It leaves room for a fellow-feeling and respect for one's enemy. The baser and more barbarous emotions in the Great War were far more evident in the columns of the Press than in the trenches.

Casualties in modern war are enormously heavy. But when account is taken of the populations engaged, of their powers of recuperation, of the relative infrequency of wars between the great nations of the modern world, then it cannot be said that war, in general, is becoming more deadly or more destructive. The incessant petty warfare of any fifty years of the Dark Ages was far more destructive to civilization than all the fighting of the last fifty years. The Great War, indeed, was entirely abnormal, as has already been pointed out, in the circumstances which prolonged it, enlarged its scope, and made its operations so murderous. Yet its total death roll was less than that brought about, over the world as a whole, by the great influenza epidemic of 1918-19, less even, perhaps, than that resulting from famine, ill treatment, and neglect in fifteen years of Soviet rule in Russia. As for its economic effects, the world had practically recovered from them by 1925, by which date its standard of living had once more risen above that of 1913, while its population had increased by 6 per cent, and its total production by 18 per cent over the pre-War figure. The next few years were years of general economic progress. The subsequent depression, though historically linked up

with events arising out of the War, was in no sense a direct, still less a necessary consequence of the War.

Armaments, as such, are not the cause of war. They are the instrument by which war may be brought about, or averted, according to the purpose of those who use them. Disarmament, in so far as it can be secured, is, no doubt, desirable as saving money and possibly, in certain circumstances, diminishing international suspicion. But it cannot, of itself, secure peace. It may, indeed, endanger it, if it strengthens the relative position of those who would upset the existing state of affairs. Nor will the failure to secure a general scheme of disarmament appreciably increase the dangers of war in the future. In Europe, at any rate, the issues unsettled are few compared with those which had accumulated to bring about the Great War. The dissatisfied nations are to-day, and will still be for some years, too weak relatively to try to reverse its main decisions. Armaments will find their own level as the new post-War Europe takes shape. If Europe can really get together and find its political and economic unity, then its armaments will diminish of themselves. If not, then they will be maintained until such times as the still outstanding issues are settled. That may yet mean one or more wars. But they will probably not be general wars. Nor are they likely to be long ones.

In the light of these general considerations it is worth while briefly reviewing the efforts at disarmament which have been made since the War. Let me take first the one case where the effort proved, in a large measure at least, successful, the Washington Conference of 1921. The War was followed by a vigorous competition in naval armaments between Japan and the United States which could not leave us unaffected. It was a competition caused partly by Japan's desire to strengthen her position in the Far East and by American fear that Japan, with the British Empire as an ally, might menace the whole American position in the Pacific; partly also by the sheer impetus of construction begun or planned for war purposes, and embodying all the latest ideas in warship design, based on the deductions then drawn from the experience of the War. Those deduc-

tions were all, at the time, in favour of an immense increase in the dimensions of individual battleships, to 40,000 tons and more, involving a corresponding increase in expenditure.

But the competition was based on no fundamental or irreconcilable antagonism. Japan had no intention of attacking America any more than America had of attacking Japan. There was room for both their interests to expand in China. The British Empire was anxious to be friends with both. To prevent misunderstanding we dropped the Japanese Alliance and joined in a general agreement in favour of the integrity of China and of the *status quo* in the Pacific. The political issues disposed of, the technical issues were comparatively easy to deal with. It would be difficult, indeed, to imagine a situation presenting fewer difficulties in the way of an agreement. The three Powers primarily concerned were already almost as far apart on the earth's surface as it was possible to be. All they had to do was to agree not to construct or strengthen naval bases that could help the battle fleet of any one of them to attack the other, and to limit those battle fleets in number and size of vessels broadly in proportion to existing strengths, in order to create a situation in which no one of them could possibly be a direct menace to either of the others. There were no other navies strong enough to complicate the battleship problem. Above all, geographical conditions enabled the naval question to be handled entirely by itself without any consideration of the relative strength of armies or air forces.

It was an ideal opportunity for a settlement which would save expense all round and avoid the growth of suspicion. And the settlement was wisely limited to the only field to which it could usefully apply, namely the battle fleets. When it came to the question of cruisers and smaller craft Lord Balfour, while agreeing to limitations on individual tonnage and gun power, rightly insisted that their numbers, unlike those of battleships, must be fixed, not by reference to the strength of others, but in relation to the various duties they had to perform. The number of British cruisers required for policing the ocean highways must depend, like the numbers of police in a great city, mainly on the mileage of routes to be patrolled and the importance of the interests

protected, and bears no conceivable relation to the number of cruisers required by the United States.

Unfortunately the only thing that the American public understood about the Washington Treaty was that we had conceded naval equality. Under pressure of public and service opinion the United States Government began to press for equality of cruiser strengths. The British Government, on the other hand, equally under the pressure of a public opinion convinced of the all-saving virtues of all-round disarmament, lacked the courage to reply that it was not prepared to discuss the matter on that basis. After an abortive Conference at Geneva in 1927 the subject was brought to a conclusion at the London Conference of 1930, when we acquiesced in fixing our cruisers at a figure far below our minimum requirements. Our whole naval position, in fact, as compared not only with America and Japan, but also as compared with France and Italy, which have never agreed to the London Treaty and have been building vigorously ever since, was gravely prejudiced, and we should have been bound to ask for a complete reconsideration of the situation in 1936, even if the whole question had not been thrown into the melting-pot by the Japanese denunciation of the Washington Treaty.

This denunciation was brought about partly by the same cause that led the Americans to insist upon undermining the original basis of the Washington Treaty, namely national resentment at a limitation which seemed to suggest inferiority in any respect. This is an inherent defect in all schemes for laying down definite limits to national armaments. For all nations resent any enforced inequality, and the only equality that is really possible in such circumstances is the equal right of each to be the judge of its own requirements. But over and above this general objection, which might possibly have been met temporarily by the fixing of a suitable scheme covered by some formula conceding the principle of equality, lies the growing determination of Japan to exercise a wider area of supremacy at sea than Washington conceded to her. The Washington ratio of 5:5:3, coupled with the provisions keeping the United States and ourselves at arm's length at Honolulu and



Singapore, gave Japan full "equality of security" in Japanese waters. Actual equality would mean Japanese supremacy over the whole Western Pacific. More than that; unless we were prepared to transfer our whole Navy to Singapore and abandon European waters altogether, it would mean Japanese command of the Indian Ocean as well.

That the whole British Empire east and south of Aden should exist by sufferance of an expanding and aggressive Power like Japan is clearly unthinkable. The right solution of the problem lies, first and foremost, in the political sphere, in some general understanding between the United States, Japan, and ourselves which will afford both a reasonable outlet and a definite limit to Japanese ambitions. If that is secured, it is just possible that a new naval agreement may be arrived at. If not, we shall be faced with a difficult situation which, whether we work closely with the United States or not, is bound to mean a most formidable increase in our naval estimates. In any case the restrictions of the London Conference on our cruiser strength are bound to go by the board.

Even more complicated and difficult has been the problem of disarmament in Europe. To disarm Germany and her allies effectively, in order to prevent any attempt to reverse the verdict of the War, and to enable the new map of Europe to take root and the new nations to settle down, was only common sense. But it was a grave mistake to make of a necessary precaution an intolerable humiliation, as was done when Germany was forbidden to maintain a system of citizen service. The only result—as anyone who knew Napoleon's experience with Prussia might have predicted—has been to enable Germany to create a nucleus organization far more formidable than any citizen army would have been. What else she may have organized or constructed, in direct or indirect evasion of the terms imposed upon her, in weapons of war, old or new, or in industrial preparation for war, no one can say. What is far more serious is the spiritual reaction, the moral rearmament, which has been evoked by the treatment to which she was submitted, and which has already made her once more, potentially if not actually, a menace to the peace of Europe.

Even the actual terms of disarmament imposed on Germany would have inspired far less resentment if their real object had been frankly declared, and still more if some time limit had been set to their enforcement. Unfortunately—as part of the Wilson-Lloyd George policy of incorporating the Covenant of the League of Nations into the Versailles Treaty—of blending half-baked idealism with the determined exploitation of the fruits of victory—the disarmament of Germany was treated partly as a punishment for her past militarism, partly as an initial step in a general scheme of reduction and limitation of armaments which was sought “as one of the most fruitful preventives of war and which it will be one of the first duties of the League of Nations to promote.” There was no contractual obligation, no pledge as to the date when general disarmament was to begin, or as to the extent to which it was to be carried, beyond the intention to reduce national armaments “to the lowest point consistent with national safety and the enforcement by common action of national obligations.”<sup>1</sup> Least of all was there any suggestion that this disarmament should be carried down to the level imposed on Germany or that, in the alternative, Germany should have a claim to rearmament on an equality with any other European Power. But enough was said to provide Germany with a pretext for working up a grievance if general disarmament were slow in coming, and for encouraging all the fanatics of disarmament to press for prompt fulfilment of the pledge given, regardless of all the practical difficulties and dangers of the situation and even to the extent of making the German grievance their own.

The problem to which the Governments stood committed in trying to arrive at a scheme of general world disarmament was, indeed, a completely insoluble one. To begin with, while it may be possible to find comparable standards in material equipment, it is impossible to find them in expenditure or in personnel. Even if the expenditure is ascertainable, and all countries were equally prepared to submit all their appropriations to impartial scrutiny, the relative scale of costs differs, and in a constantly changing ratio, between

<sup>1</sup> Allied Reply to German reservation to Part V of the Versailles Treaty.

different nations. So does the fighting value of personnel. The experience of the Great War might have made it possible in 1919 to lay down certain coefficients of valour and efficiency with the help of which a real basis of calculation might have been secured. But who would have dared to insult any nation at Geneva by telling it that it required three of its soldiers to equal two Frenchmen? Or who can say to what extent the coefficients of 1919 would apply to-day? What is the real military value to-day of the Polish army or the Czech army or the Soviet air force? By what percentage has Italy's already formidable power been enhanced by the keener discipline and more strenuous patriotism of the Fascist regime? The emergence of some new element of superiority in fighting quality is just what has from time to time upset the old automatic balance of power by which nations have endeavoured to establish security by the combination of their own armaments with alliances. How can a mechanical system of security by the general regulation of armaments make provision against that contingency?

Again, standards of relative strength are meaningless except in terms of the actual defensive problems of each country, and these in turn are influenced by innumerable factors, geographical and political. The problem of French defence, for instance, is primarily dependent on French relations with Italy as well as with Germany. Defence against Italy, for France, is at least as much a naval as a military problem, the immense strength of her mountainous south-eastern frontier only serving her purpose if it is not outflanked by sea. The problem then is clearly one that cannot be considered apart from the attitude of this country. But it is also in its turn affected by the relations of both Germany and Italy to the countries beyond, to Poland and to the nations of the Little Entente, to Austria, Hungary, and Bulgaria, to Greece and Turkey, and of all these to each other. Their influence as a factor is again subject to their relations to Soviet Russia, whose own attitude or power of intervention may be affected by the situation in Manchuria. All these relations are not constant but continuously changing factors. Nor is it possible to estimate the relative military strength of nations without regard to

internal requirements. Who can say what proportion, at any particular moment, of the French colonial army, or of our army in India, can be reckoned as available elsewhere?

It is to the complexity and fluctuating character of all these factors that nations have incessantly to adjust themselves, now spending freely for their security, now taking risks for the sake of urgently needed domestic expenditure or economic regeneration, now making sacrifices of their ambitions, or incurring difficult or dangerous commitments, in order to secure allies or remove causes of friction. How is it possible to fit in with this continuous process of adjustment a rigid mechanical scheme for the stereotyping of only one of the factors in the problem? The fact is that a general fixed scheme of world disarmament really presupposes a scheme for settling all the other factors in the situation, in other words the establishment of a world authority capable of enforcing its decisions over the whole field of international relations.

On top of these general difficulties of the problem was superadded the specific difficulty of reconciling the general commitment to a policy of disarmament—based on the equality of all members of the League of Nations and on the assumption of their acceptance of the *status quo* established by the Peace Treaties—with the fact that this acceptance, on the part of Germany and her allies, was only due to compulsion, and that the essential condition of European peace lay in the maintenance of that compulsion by the unquestioned military superiority of the victorious Powers, until such time as the conquered were reconciled to their position. The only sensible policy in the circumstances was to play for time. Accordingly the "Temporary Mixed Commission on Disarmament" was set up in 1921 to make a preliminary study of the question. This was succeeded in 1925 by the "Preparatory Commission for the Disarmament Conference" which continued its sessions till 1930, and had by then elaborated the outlines of a scheme of disarmament in blank, omitting all the figures which alone could give the scheme any meaning. In February 1932 the Disarmament Conference at last met. After a year of futile discussion the Conference was revived in

March 1933 by a dose of oxygen in the shape of Mr. MacDonald's plan. This was an attempt to deal, at any rate with the European situation, on the basis of a general standardization of the continental armies, including the German, on a uniform short-service footing with definite figures of effectives inserted. The pretence that this scheme might provide a basis of agreement was with difficulty kept up till July when the Conference was adjourned for private consultation among the Powers chiefly concerned.

One of the problems, *among many*, which was thus left to be dealt with, was the German demand for equality in all types of armament. This demand was conceded in principle by the other Powers in 1932, when Germany had walked out of the Conference, in order to bring her back. It meant very different things to both sides. To the ex-Allies it meant a process of gradual approximation extending over a number of years, and subject to a good many precautions. To the Germans, especially after the triumphant capture of power by the Nazis, it meant something immediate and effective. A period of five years for the transition to equality was at one time discussed. But before the French were prepared to consider this, or indeed any other scheme, they were determined to have some guarantee of their security in the interval. We appear to have persuaded them that this could be furnished by a system of international inspection. To set up such a system and make sure that it worked well would naturally take some time, and the suggestion consequently emerged that the process of transition to equality should take place in two stages. In the first stage effectives were to be reduced or, in the case of Germany and the other disarmed Powers, raised to the MacDonald figures, while the machinery of inspection was set in operation. In the second all weapons classified as offensive were to be got rid of by all parties, while Germany was to be allowed to equip herself with all the weapons allowed to anyone else.

The two-stage plan seems to have commended itself as reasonable to the American and Italian Governments as well as to the French and British. But no sooner had Sir J. Simon outlined it at a meeting of the Bureau of the Conference in October 1933, tentatively suggesting four years

for each stage of the plan, than Germany again walked out of the Conference and gave notice of her intention to leave the League of Nations. The decision was clearly not precipitated by Sir J. Simon's speech, though it may have been influenced by a shrewd idea of what he was going to say. It was taken in part, no doubt, for electioneering reasons, and from that point of view was thoroughly justified by the result. But the main reason probably was the determination to force the pace in getting rid of the Versailles limitations for good and all and in rearming without delay. From that point of view, too, the decision was abundantly justified.

Germany's action broke up the Disarmament Conference. But there is no justification for the idea that Germany wrecked the hopes of a Disarmament Convention which, but for her, was on the eve of a successful conclusion. Even if the two-stage plan had been accepted, even if the length of the stages and the details of the scheme of inspection had been agreed upon, that would still have left all the other issues unsettled, and with the prospect of settlement as remote as it was when the Conference adjourned in July. All that happened, in fact, was that Germany rudely put an end to the general game of pretending to try to square the circle, and is now confronting Europe with her determination to rearm.

What is more important is that Europe, and in particular France, has come to recognize that this determination is to-day legitimate. The real object of disarming Germany, namely to let the new Europe find its feet, has been substantially fulfilled. To continue to drive the Germans, by the humiliation of being a compulsorily unarmed and therefore inferior nation, into a mood of frenzied militarism and hysterical xenophobia has become not only futile but increasingly dangerous to the general peace. The first condition of European peace to-day is the frank acknowledgment that Germany's armaments are now her own affair, and nobody else's. The real value of the proposed "Air Locarno" is that it tacitly admits Germany's right to have an air force equal to that of France or of this country, and we have been right, not only in persuading France to

accept this ingenious method of extricating herself from the Versailles Treaty, but also in putting the air proposals in the forefront of the general scheme for a European settlement. If the scheme succeeds it may, perhaps, be possible, formally or informally, to secure agreement to a general slackening off of military preparations. But we shall only spoil the chances of its success by trying to nag France, or anybody else, into a renewal of the chase after the will o' the wisp of a rigid Disarmament Convention. If the scheme fails and Germany shows, both by her armaments and by her policy, that she intends aggression, then she will consolidate the rest of Europe against her—the next best thing, though a poor next best, to a consolidation of Europe with Germany as a willing partner. For us, at any rate, the part of common sense is to leave Europe, so far as we can, to settle down to her own situation. Happily, it seems as if we were at last, tentatively and by sheer necessity rather than by clear conviction, beginning to move in that direction.

To sum up. The time has come to recognize that the whole idea of "the collective organization of peace" by mechanical and abstract general schemes has failed and must fail. The League of Nations, especially if it can be reformed so as to get rid of all pretence that it is more than a standing international conference, may still do valuable work. But the Covenant of the League is dead. Nor will all the peregrinations of Foreign Ministers, or even the votes recorded for the so-called "Peace Ballot," set the Humpty Dumpty of the Disarmament Conference up on his wall again. These things have not only failed to achieve success. They have confused and embittered the situation. The Disarmament Conference did nothing but create unrest and suspicion while it was in existence. More serious still, these mechanical and general schemes stand in the way of the only practical approach to a better ordered and more peaceful world, namely the concrete, specific task of getting together the nations in groups or commonwealths capable of being inspired by a common idea, a wider patriotism, and so disposed to co-operate in defence, in policy, and in trade.

## THE PASSING OF ECONOMIC INTERNATIONALISM

## I. THE ERA OF BRITISH FREE TRADE

IN the field of economic policy England has always been a pioneer and a leader. She was the first and by far the most successful exponent of economic nationalism. From the fifteenth century onwards English statecraft deliberately and consistently used all the powers of the state, of its legislation, of its fiscal and financial system, and, when necessary, of its armed forces, in order to develop to the fullest all the resources of this island and the aptitudes of its people for the creation of wealth, the maintenance of employment, the support of the revenue—in sum for the building up of England's greatness and prosperity. By export duties and import duties, prohibitions and bounties, a purely agricultural and pastoral country was gradually converted into the world's leading centre of industry. Step by step we wrested the woollen industry from the Low Countries, the iron and steel industries from the Hansa merchants, the cotton industry from the East. There was not a single great staple industry in existence in this country at the end of the eighteenth century that was not in large measure the creation of Parliament.

The great German economist, Friedrich List, writing in the heyday of theoretical Free Trade, always pointed to English history as the best answer to the theorists, and as the practical example which he urged his fellow-countrymen to follow:

"From every country of the Continent this island borrowed its peculiar aptitudes and planted them under the shelter of her tariffs upon her own soil. . . . Once in possession of a branch of industry she fostered and nourished it for centuries like a young tree which needs support and attention. If there is any one who does not know that any branch of industry can be made profitable in course of time by diligence, skill and thrift; who does not know that in a nation which has already made some progress in agriculture and general



civilization, young industries, however imperfect and dear their products may be at first, will soon with practice and under the stress of internal competition equal those of older countries in every respect; who has not realized that the prosperity of each separate branch of industry is conditioned by the prosperity of every other branch; who does not know to what degree a nation can develop all its productive powers if it studiously takes care that each generation should continue the work of industry where the last generation left off—let him, I say, study the history of English industry before he essays to build theories and to give advice to practical statesmen, into whose hands the weal or woe of nations is entrusted.”

As our horizons expanded, we captured the world's sea carrying from the Dutch by our Navigation Laws, assisted, not only by our Navy, but by the establishment of colonies of settlement, plantations and chartered companies, all of which furnished us both with supplies and with markets, in other words with a complementary both ways trade, effectively under our control. Control and planning, indeed, were essential elements of the policy. Colonial production and manufacture, as well as Colonial export and import, were strictly regulated, but with a reasonable measure of consideration for Colonial as well as for merely English interests. Even in those days the underlying conception of the British Empire was that of a “Commonwealth for Increase,” as Sir J. Harrington described it in his *Oceana*, and not, like the Spanish or Dutch Empires, envisaged mainly from the point of view of exploitation.

Whatever incidental defects the old mercantile system may have had in narrowness and rigidity of interpretation, there can be no doubt of its success. Under it Britain built up for herself a position in trade and shipping that converted her from the poor and backward country described by Macaulay in a striking chapter in his *History*, at the end of the seventeenth century, to the prosperous great Power that held its own for a generation against revolutionary and Napoleonic France. Burke notes that the exports to the West Indian and North American Colonies went up from under £500,000 in 1704 to nearly £5,000,000 in 1772, and even these figures hardly do justice to the transformation

of our internal economic structure brought about by a purely complementary trade, which added so greatly to the resources at our disposal. Yet the development of the American Colonies themselves was even more amazing. When one considers the means of transportation of those days, and then reflects that the population of the Colonies grew in a little over a century to nearly three millions, as large a population relative to that of the Mother Country as the whole white population of all the Dominions is today, one realizes what a powerful engine for the creation of prosperity and population our old Imperial economic policy proved itself. Burke pointed out that if the Colonies were subjected to a monopolist control:

"Their monopolist happened to be one of the richest men in the world. By his immense capital (primarily employed not for their benefit, but his own) they were enabled to proceed to their fisheries, their agriculture, their shipbuilding (and their trade too within the limits), in such a manner as got far the start of the slow languid operations of unassisted nature. This was a hot-bed to them. Nothing in the history of mankind is like their progress."

In a sense the policy was too successful, for the growth of the Colonies in all that constituted a prosperous self-confident national life outstripped the capacity of our constitution and of our national temper at home to adapt themselves to the new situation. But the policy was not itself the cause of the American Secession, as Burke was never weary of pointing out. The Declaration of Rights drawn up at Philadelphia, just before the outbreak of the revolution, declared:

"From the necessity of the case, and in regard to the mutual interest of both countries, we cheerfully consent to the operation of such Acts of the British Parliament as are bona fide restrained to the regulation of our external commerce for the purpose of securing the commercial advantages of the whole Empire to the Mother Country and the commercial benefits of its respective members."

What caused the revolution was not the regulation of Colonial trade, but the attempt to invade what was regarded as the rightful sphere of the Colonial legislatures in the imposition of direct taxation.

The old Colonial economic policy was not abandoned after the American Secession, but was, at the beginning of the nineteenth century, gradually modified into a policy of mutual preference. In 1823 that great advocate of sane Free Trade, Huskisson, opened the Colonial trade to foreign countries, subject to the imposition of moderate duties, ranging from 7 per cent to 15 per cent, from which British goods were exempt. As against these, the Colonies enjoyed substantial preferences on their products, such as timber, wheat, sugar, and wine. Under that policy Britain's new Colonial Empire began to make rapid strides. In spite of its much later start, Canada, up to 1845, was fully holding its own in comparison with the United States, and in the period 1815-40 actually attracted 532,000 British immigrants as compared with 458,000 who went to the United States.

It is an interesting speculation to think what might have been the progress of the Empire under Huskisson's policy of practically Free Trade within the Empire and moderate duties against the outside world, if it had only been given a few more years' trial, and so had the credit, which so undeservedly went to Cobden, for the great expansion which followed the Californian and Australian gold discoveries. Unfortunately, on the very eve of the great revival which would have deprived their theory both of its appeal and of its apparent justification, Peel capitulated to the Free Trade doctrinaires, and the whole historic economic policy by which Britain had achieved the industrial and commercial leadership of the world, and by which her new Empire was already well on its way towards replacing and outstripping the one she had lost, was thrown away, to be regarded, for generations to come, as contemptible folly.

There was nothing in the actual circumstances of the time to explain so amazing a reversal of policy. The Irish potato famine was a mere pretext. The "Hungry Forties" are a myth, and so far from Free Trade relieving famine prices, wheat remained at an average price of over fifty shillings a quarter for thirty years after the repeal of the Corn Laws, while the price of meat, cheese, butter, and most other articles of food rose rapidly in spite of free imports. It was not economic

facts but the immense compelling power of an economic theory, the fascination of a dream of economic world empire, that swept our people away in what Disraeli called "a springtide of economic frenzy." The establishment of Free Trade by England, of all countries, was the most inconsequent, the most audacious, and for a time at least most successful *volte face* in history. Once again we essayed to lead and dominate the world by our economic policy.

The individualist *laissez-faire* Free Trade theory was not something that stood by itself. It was part of the wider intellectual and political reaction against the old world of feudalism and paternal government, which by the end of the eighteenth century had become so inadequate and cramping a framework for the freedom of modern thought and the enhanced economic energies of the age of the industrial revolution. Its economic principles were not deductions derived naturally from the unbiased researches of Adam Smith and the school of *laissez-faire* economists of which he was the founder. It would be much nearer the truth to say that the *Wealth of Nations* was written, and classical political economy invented, in order to prove the desirability of Free Trade and non-interference. Adam Smith's work was an attempt to justify, in the domain of economics, the fashionable political philosophy of the day. It was a definite attempt to meet an existing demand, and the enormous success which it attained forthwith all over Europe shows how well it met that demand.

The central core of the theory was the right of every man to do what he liked with his own: to buy or sell what and where he chose, to enter into any agreement he considered profitable, subject only to the obligation to fulfil the terms of a contract legally entered into. In domestic matters this meant the complete abolition of status. The only economic relationship that ought to exist between citizens was that of contract, the only economic bond the cash nexus, the only test of economic desirability the test of individual profit. It meant also the sweeping away of all restrictions or regulations aimed at maintaining the balance of different elements in the population or at protecting the economically weak. It was the negation, in the economic

field, of all moral responsibility and of all thought of the public interest. In this domain the victory of *laissez-faire* had really preceded by half a century its final victory in the field of external trade regulation.

It was won with comparatively little political controversy, partly because so much of the system of regulation and restriction left over from the past was wholly unsuited to the new age and a direct hindrance to development and prosperity; partly also because those whose interests were brushed aside were politically unrepresented. The immediate result was sufficient to strengthen the conviction of the advocates of the dominant theory in its all-sufficing virtue. There followed an immense expansion of industry, of population, of total wealth. But there also followed in the train of this unregulated expansion social and political evils whose consequences are still with us. The theoretical equality and freedom of all threatened rapidly to bring about the complete degradation of large sections of the working classes. The working man, in theory a free competitor, found himself and his wife and children reduced to the position of mere instruments of production, instruments for which their user had none of the responsibility of the slave-owner, who knows that slaves are expensive and have to be replaced if worn out by overwork or under-feeding. Half-naked women and children crawled about as beasts of burden in the mines, to help make up the living wage which the theorists smugly explained was all that could ever be obtainable by the mass of mankind. A day divided almost equally between the factory and the slum was, from infancy to premature old age, the vision which the new era opened out to ever-multiplying millions. One must read Disraeli's *Sybil*, or the reports of the Royal Commissions from which he borrowed so freely, to understand something of the seed of bitterness sown during this period, and of its consequences that still live to poison our social and political life.

Few in those days directly questioned the theory which led to such results. But the conscience of the nation revolted against them, and insisted on some check being put to the worst abuses. In this work the Conservative Party, led by

men like Lord Shaftesbury and Disraeli, took the lead in face of the determined opposition of Cobden and Bright and all the theorists. The Factory Acts, the Truck Acts, Disraeli's enfranchisement of the Trade Unions, his Health Acts, the beginnings of a Housing Policy, Compensation for Accidents, Old Age Pensions, Health and Unemployment Insurance—all these mark successive stages in the practical reaction against *laissez-faire* which, without directly challenging the theory, did much to mitigate its consequences.

The natural corollary of *laissez-faire* in the field of domestic economics was its application to the external field. Here, too, the theory postulated the right of every individual to regard national frontiers as non-existent in the pursuit of his economic interests and activities, and objected to any attempt on the part of Governments to regulate those activities in the supposed national interest. It implied not only Free Trade in goods and the carriage of goods, but also free investment and free migration. The whole world was, in fact, conceived of as a single unit for the purposes of the promiscuous and unregulated exercise of individual economic activities. The only object for which Governments existed was to see that contracts were honoured and property protected against direct fraud, theft, or robbery. Nations, as such, were mere subdivisions of mankind surviving from an earlier stage of development, and only justified by convenience of geography, language, or customs.

The whole system was regarded as self-regulating and automatic. Capital and labour naturally flowed to wherever profits were highest, which was where articles could best be produced. The available capital regulated the amount of labour that could be employed at a given wage, and that wage was kept down near the subsistence level by the pressure of the birth rate. Local differences in standards of living and profits would gradually be evened out. An essential part of the whole mechanism was a self-regulating international monetary system, based on complete free trade in gold (and silver so long as it was linked to gold under the bimetallic system) and on national currencies based on gold, and freely convertible into gold at a fixed

ratio. This was, in fact, the general international contract which governed and gave security to all lesser individual contracts.

Once the system was generally adopted all would inevitably be for the best in the best of all possible worlds, best for every individual, best for every nation, best for the world as a whole. Every contract or bargain freely entered into, so Adam Smith and his followers argued, was presumably to the advantage of both parties, who know their interest better than any Government could know it. The sum total of bargains, uninterfered with, must therefore represent the maximum of total advantage. Every country must prosper more if its capital was allowed to flow naturally into those forms of productive activity for which it was best fitted by nature or by the peculiar aptitudes of its people, than if that capital were diverted by tariffs or other restrictions into less profitable and less natural channels. An invisible network of interlocking commercial and financial interests would increasingly bind the whole world together, fostering mutual understanding and peace, and making war, if it should still break out, equally disastrous to victor and vanquished.

We need not linger here to analyse in detail the flimsiness of these arguments, so confidently advanced and so unquestionably accepted in their day. It is, of course, obvious that the economic interest of a community cannot be treated as simply the sum of the economic interests of its interacting and often conflicting members, and that the supposed advantage of both sides in a bargain cannot be considered independently of the conditions under which it is made, conditions which may be profoundly modified by Government action. It is equally obvious that the doctrine of the special suitability of each country for certain products only covers a very limited portion of the economic field, even for agricultural products, that most industrial aptitudes can be acquired, and that the enforced acquisition of them by tariffs or any other form of Government pressure results, not in a mere diversion of part of a fixed quantum of national capital, but in an increase of that capital itself. Nor does either logic or experience prove that the exaggerated

importance attached by the international system to the pushing of export trade, and to the development of international lending, always conduces to peace.

Such as they were, these arguments derived their real force from the interests, or supposed interests, of the class for which they were written, the capitalist middle class to which the Reform Act had transferred the control of this country, and which in other countries was also gradually rising in power and influence. For those to whom profits are the only consideration it makes no difference whose labour is employed to contribute to those profits, or where the capital is invested. The one thing that matters is that profit-making should be made as easy as possible by removing every hindrance to the right to buy (i.e. give immediate employment) or to invest (i.e. provide for future employment), where profits point the way. An unlimited geographical option in profits was thus the ideal of those who then dominated policy. It was a very dubious ideal for the manual worker whose capital lay in himself, and could only be transferred by migration, or whose opportunities of employment depended on competition, not only in skill but in standards of living. Nor, in spite of its plausibilities, was it a safe ideal for statesmen concerned, not with rates of capitalist profit, but with totals of national economic strength, expressed in terms of production and of general welfare, with social stability, or with defensive security. But, for a time, these other considerations lacked political force or were obscured by the attractiveness of the picture of the new economic millennium. The "bagman's Paradise" became, and, indeed, still is, the professed ideal, if not the working practice, of statesmen, and even of those who claim to speak on behalf of Labour.

To understand how so shallow and unscientific a theory could win such widespread and passionate support—how it became elevated to a dogma invested with the mathematical certitude of Euclid and with the moral authority of a religion—it is necessary to recall the economic history of the years which immediately followed the establishment of Free Trade in England, and especially the effect of those years upon our own position in the world. It must never



be forgotten that the advocates of Free Trade in this country reconciled their theoretical internationalism with the confident conviction that under world Free Trade—which Cobden believed would come within five years of the abolition of the Corn Laws—we should enormously extend and permanently consolidate our supremacy in industry, commerce, and finance. Their zeal for humanity at large covered a robust, though only half-conscious, economic imperialism. Their contempt for the actual Empire which their predecessors had built up was based on the belief that it was a purely unnecessary and expensive adjunct to the world Empire which awaited them. For a whole generation the course of events seemed to justify their faith.

Within three years of the abolition of the Corn Laws the long depression resulting from the restrictive monetary policy which had prevailed ever since the Napoleonic War was swept away by the sudden increase in the world's gold supply following on the Californian and Australian discoveries—the greatest economic stimulus to Western civilization since the original discovery of America. All European industry benefited, but above all English industry, because England controlled the Californian and Australian trade, and received the great bulk of the gold in exchange for her goods. With the general revival of industry came an enormous expansion of railway construction in Europe and America. England had invented railways. In building locomotives, in making rails, in laying permanent way, English manufacturers and engineers were a generation ahead of all the world. The whole world wanted railways and machinery, and England alone could supply them. Lastly, throughout this period, an almost continuous series of internal or external struggles, beginning with 1848, "the year of revolutions," and ending with the Franco-Prussian War, paralysed our chief industrial rivals in turn. It was an age of extraordinary developments, economic and political, of which we were alone in a position to reap the full benefit.

The thirty years that followed the repeal of the Corn Laws marked the greatest advance in prosperity and industrial

power that England has ever known. Between 1846 and 1872 British exports rose from £58,000,000 to £256,000,000 and imports from £76,000,000 to £371,000,000. The output of iron, "the bread of the other industries," increased from 2,250,000 tons in 1850 to 6,700,000 in 1872. Between 1846 and 1870 the exports of cotton manufactured goods rose from 1,065 million yards (value £16,750,000) to 3,267 million yards (value £56,750,000).

Nowhere did our expansion meet with any serious obstacle. The Free Trade movement, for a time, dominated the Continent almost as effectively as it dominated England. Tariffs were steadily reduced, either independently, or, like the French tariff in 1860, as the result of negotiations. Throughout the whole period English Free Traders could fairly claim that our action had not been without its influence on other countries, and could console themselves with the hope that the principle of universal Free Trade, though not accepted with the spontaneous promptitude that Cobden had predicted, was yet, on the whole, making steady progress. Such tariffs as existed were not, as a rule, high enough to prevent British manufactures from entering freely and competing successfully with the local industries. The whole commerce between England and other countries was, in the main, what the advocates of Free Trade had hoped it would be, an exchange of complementary services. England sent them her manufactures and received their raw materials and foodstuffs in exchange. With our trade expansion went a parallel growth of our shipping, enormously helped towards the end of this period by two circumstances: firstly, the destruction of the American mercantile marine by the Civil War and the subsequent diversion of all American interest to continental development; secondly, the supersession of the wooden sailing ship by the iron steamship at a moment when our iron and steel industry stood supreme.

To these sources of profit were added all the profits of an ever extending business in discounting, insurance, and finance of all sorts. In spite of the growth of imports our net balance of credits grew from year to year. What more natural than to reinvest it abroad, in the United States, in

Europe, anywhere and everywhere? Wherever it was, the result was not only more profit from the investment itself, but increasing direct employment. For during all this first stage our investment was mainly represented by primary forms of equipment such as railways and rolling stock, which we were best fitted to provide, and which created no immediate competition for our own industries, though soon destined to prove disastrous to our agriculture.

Even before that the policy of economic promiscuity had proved disastrous to the expansion of our young Colonial Empire. This was more than an incidental hardship inflicted for the sake of economic theory. To Cobden and his associates the very existence of a political Empire was something odious in itself, as well as an unnecessary expense, and a diversion from their dream of a purely economic English world empire. "The Colonial system," so wrote Cobden in 1842, "with all its dazzling appeals to the passions of the people, can never be got rid of except by the indirect process of Free Trade which will gradually and imperceptibly loose the bonds which unite our Colonies to us by a mistaken notion of self-interest."

As a matter of fact, there was nothing very gradual or imperceptible in the strain imposed on Colonial loyalty. The promising development of the Colonies received a sudden and disastrous check. For Canada the abolition of the Corn Laws was an absolute catastrophe, and for some years the entire financial, agricultural, and industrial interests of Canada were paralysed, while the United States took full advantage of the new opening afforded to them. It was in vain that the Governor, Lord Elgin, protested: "All the prosperity of which Canada is robbed is transplanted to the other side of the line, as if to make the Canadian feel more bitterly how much kinder England is to the children who desert her than to those who remain faithful." The only thing that saved the North American Colonies—and all but lost them to the Empire—was a reciprocity treaty with the United States which the British Government arranged in 1854, and which practically put them inside the American fiscal system. The flourishing wine industry of the Cape was allowed to survive a while,

but was killed by the Cobden Treaty with France in 1860. The West Indies lost their sugar preference in 1854. The duties which protected British exports to the Colonies were swept away in 1848.

The doctrinaires were in fact determined to enforce their theories rigidly throughout the Empire. Revenue duties in the Colonies were inevitable, but they were determined to tolerate no trace of mutual preference, even between neighbouring Colonies. Even if they wished it, the Colonies were not to be allowed to give any preference to the Mother Country. In 1862 and 1865 we made treaties with Belgium and the North German Zollverein by which we pledged ourselves not to allow any British Colony to give us preference. So natural and obvious did that seem in those days of doctrinaire craziness that this particular provision was never even discussed in the House of Commons. Enforced Free Trade remained the rule, right up to the Great War, in all parts of the Empire which were directly controlled by Downing Street. In India that policy created an enduring resentment whose fruits are now being reaped in the determination of Indian politicians to have nothing to do with any Imperial economic policy which they suspect of aiming at limiting their right of self-protection.

With the self-governing Colonies the doctrinaires were up against forces too strong for them. Canada was not long in claiming the right to impose duties, even if of a protective character, against the Mother Country. In 1861 the North American Colonies secured the right to give each other special treatment, a right not conceded to the Australian and New Zealand Colonies till 1873. Colonial statesmanship, working on its own lines, was destined to save the Empire which the doctrinaires wished to destroy. The critical moment came in 1865 when the Americans denounced the Reciprocity Treaty, under which Canada had enjoyed a decade of prosperity, hoping to force the scattered and weak British Colonists into the American Union. Under the inspiration of Sir John Macdonald, the real father of modern Empire economic policy, the Colonies decided to form an economic and political union of their own, and hold the northern half of the Continent for the

Union Jack. The Canadian example was followed by other Colonies. Gradually the British Empire recovered economically as well as politically from the shock inflicted upon it by Free Trade.

But the recovery was cramped and restricted all the time by the small scale on which each Colony, or later Dominion, had to work. Compared with the United States, which, with more than a century's start, had already developed a substantial and well-protected home market, they had no chance of securing either capital for further development, or immigrants to help convert that capital into production and prosperity, or means of transport to convey their products cheaply to the British market. Free Trade, in fact, meant an immense concentration of British creative energy upon building up the United States. Between 1841 and 1866, 2,640,000 British immigrants went to the United States, as compared with only 677,000 who went to Canada. In all some ten millions of our people, and thousands of millions of our capital, went to build up, not the Empire, but the Republic, and by their very going enabled the United States to absorb tens of millions more of immigrants of other European nationalities. It was not until the beginning of the present century that the Dominions, and more particularly Canada, began to receive any substantial influx of population. But unto him that hath will be given, and the growth of the United States in population and wealth since 1900 has been far greater than the growth of all the British Dominions together since 1845.

For thirty years British economic policy dominated not only the world situation but the world's outlook. The turn of the tide came, once again, as the result of a monetary phenomenon. The world monetary system, to whose unification British policy had so greatly contributed, was based, so far as all Asia and South America was concerned, on silver linked to gold through the bimetallic system of continental Europe and of the United States. In 1873 Germany, placed by the unexpectedly rapid payment of the French War Indemnity of £200,000,000 in a position of having a great surplus of currency, decided, in imitation

of England, then at the height of its prosperity, to go on to the Gold Standard, and proceeded to sell off large quantities of silver. For this the normal market was the French Mint and those of Belgium and other countries of the Latin Union. There is no reason to suppose that the bimetallic system could not have carried the strain; and it was the political motive of putting a spoke in the wheel of the enemy, rather than purely economic considerations, which led to the progressive restrictions imposed by the French Mint which culminated in the complete closing of the Mint to silver in 1876. These measures, followed by the other countries of the Latin Union, and by the United States, in fear of being swamped by the surplus of silver, were originally intended to be temporary. But the situation went too far to be corrected by individual action, and the attempt to restore it by international agreement broke down against the steady opposition of this country, an opposition due to a short-sighted notion that we as a Gold-Standard and creditor country only stood to gain by the extension of the Gold Standard and by a progressive deflation.

The immediate fall in the prices of all primary products (the inevitable first result of currency deflation) coincided with the greatly enhanced competitive power of American agriculture due to the enormous development of American railways after the Civil War and to the continuous improvement in shipping facilities. The whole of European agriculture was threatened with ruin. Germany, France, and most other European countries, realizing the importance of maintaining their agricultural population, not only for social and military reasons, but also as the best home market for their manufactures, took effective steps to that end, even at the risk of raising prices to the general body of consumers. In England the entire change which had come over the situation since the Repeal of the Corn Laws was ignored. No attempt was made to avert the national disaster which Cobden always cheerfully declared to be impossible. The acreage under wheat in this country declined by 55 per cent between 1875 and 1907. The population drifted from the land to the United States or

to our own cities. Our industries lost a home market worth more than the whole of the markets of Europe added together, a feature of the situation entirely ignored in our obsession about foreign trade, whose unanalysed quantitative statistics were, indeed, the only trade figures anyone ever thought worth publishing. The importance of a due balance between industrial and agricultural production—of which France has had such striking benefit since the War—was disregarded by a generation which could not conceive a future in which our industries might find other markets effectively closed to them. In England, where industry was still confident of its position, and not sorry to see the landlord interest weakened, the disaster was accepted with a shrug of the shoulder, and the Panglosses of Free Trade hastened to explain that all was for the best in the best of possible worlds. In Ireland, a purely agricultural country, economic disaster gave new life and a new bitterness to the movement for separation from the smugly blundering selfishness of the predominant partner in the Union.

The revival of protectionism in Europe was not long in extending to industry. It was accentuated by the vigorous dumping of British goods by which we, with our immense industrial predominance, were for a while able to relieve the first effects of the fall in world prices. By doing this we incidentally crippled our weaker foreign rivals and could hope to be in a stronger position than ever when general prosperity returned. The folly of submitting to this for the sake of a theory was too obvious to be maintained.

But in any case economic internationalism was beginning to go out of favour everywhere except in England. After the first enthusiasm for following the example which seemed so successful in England, the nations began to bethink themselves, with List, on whose writings Bismarck based his whole economic policy, that it was a very different policy which had given her the pre-eminence which she was so determinedly exploiting. They decided that they, too, would, at whatever initial sacrifice of convenience, build up new industries to strengthen the total fabric of their economic system, to increase their populations, to

swell their revenues. Considerations of defence, as well as of mere economic prosperity, played their part. Agriculture had to be protected as the best breeding ground for sturdy recruits and as providing assured supplies in time of war. But more and more modern war, on sea and land, was becoming dependent on industry, and the control of the great metal industries was an essential element in military preparation.

In high wage democratic countries, on the other hand, like the United States and the British Dominions, industry was impossible without protection against the lower wages, as well as against the superior skill, of England. Democracy, indeed, as it transferred power from capital to labour, almost everywhere, except in Britain, naturally swung in favour of national employment against international profits where the two were obviously in conflict. With democracy, too, came social reform, both in the form of legislation limiting internal *laissez-faire*, and of social expenditure involving increased taxation. Both these handicaps to industry, from the immediate profit-making point of view, naturally demanded some countervailing element of taxation on competing foreign goods. An essential postulate of Free Trade had, in fact, always been a scale of national and local taxation so low as not to constitute an appreciable factor in productive cost.

Lastly the progress of science itself favoured the development of nationalism in economics by weakening the argument based on the peculiar aptitudes of individual countries for particular products. England's pre-eminence in iron and steel was challenged as soon as the Gilchrist-Thomas process brought Germany's iron ores into effective use. So too Germany's immense dye industry was built up on the work of another British inventor, Perkin, displacing not only the dyeworks of Britain, but the indigo fields of India. Few, indeed, are the industries which cannot to-day be made to flourish anywhere, if the will to create them is there. With science, too, came the technique of mass production, with its power of overspill or "dumping" to secure the economy of expanding output.

All these various factors were themselves only part



of a new outlook on national life, an outlook which no longer regarded nations as mere administrative subdivisions existing for the convenience—or inconvenience—of the individuals who were the only ultimate subject-matter of politics and economics, but as historic entities, organic structures, ends in themselves. The new outlook is essentially more scientific because it realizes that there is no such thing as an individual man, apart from the tradition and environment which have shaped him, and that historic groupings and associations of mankind in tribes, races, and states are enduring realities with which both political theory and practical statesmanship must reckon. That outlook has come to stay; is, indeed, growing stronger all the time as scientific, evolutionary, biological conceptions influence political and economic thinking. It is only the Rip van Winkles of nineteenth-century thought who talk of economic nationalism as due to the domination of economic unreason, as an aberration from the true line of progress, and who delude themselves with the thought that it can be exorcised by International Conferences, and the way once more cleared for the economic promiscuity which is still their ideal. Economic nationalism is inevitably destined to be the dominating conception of the coming generation, and it is only those who are prepared to accept that fact, and to shape it to their own ends, who can hope to control the future.

To return to the course of our narrative. The United States had already definitely embarked on a policy of high protection after the Civil War. In Europe Bismarck gave the lead when he persuaded Germany to follow the American example in 1879. In 1881 France threw over the Cobden Treaty and raised the average scale of her duties by more than 20 per cent. Practically every other industrial Power followed suit, and most foreign tariffs were raised steadily higher in the last twenty years before the War. The closing of the doors to British trade led to a vigorous "fair trade" movement in England in the early 'eighties. But the movement was short-lived. The Free Trade theory had secured far too strong a hold over the public to be seriously shaken. The general belief was that other countries were injuring

themselves more than they injured England, that they would before long realize their mistake, and that meanwhile British trade could find other outlets.

The first effect of foreign tariffs upon British trade was a purely restrictive one. Our exports to what had hitherto been our most profitable markets ceased to expand, remained stagnant, and even showed signs of decline. Our trade found an outlet in neutral markets and in the British possessions to make good the deficiency. But the old buoyancy had completely disappeared. Instead of developing by leaps and bounds, as in the preceding generation, our export trade remained practically stationary for thirty years. Meanwhile foreign industries, so far from being ruined by protection, developed rapidly behind the shelter of their tariffs. Very soon they began competing successfully with British industries in the markets of the world. According to the theoretical conclusions of the Free Traders, it was only possible for a country to protect its home market at the cost of injuring its export trade. From this it logically followed that the British manufacturer would be at an advantage compared with the protected manufacturer in every market except his own. British trade ought, consequently, to have ousted foreign competitors from all neutral markets, and even in protected markets the proportion of British imports to total imports ought to have shown a decided increase. The very opposite took place. In almost every market, protectionist or neutral, foreign or British, the proportion of British imports to total imports steadily declined.

Even more significant was the fact that foreign manufactures began, in steadily increasing quantity, to displace British manufactures in the United Kingdom itself. In 1855-59 the average import of foreign manufactures was 20·7 million pounds sterling. In 1895-99 it had risen to 109·6 million pounds sterling, in 1905-08 to 149·5, and in 1912 to £185,000,000. The greater part of these imports were in no sense specialities, but ordinary staple commodities which competed directly with British manufactures of the same class.

With the change in the character of our foreign trade and that of our protectionist rivals, there followed a correspond-

ing change in the relative volume of our production—the real test of industrial prosperity. In the 'seventies, when the trial of strength between protection and free imports first really began, our industrial supremacy was undisputed. We produced more iron, more steel, more woollen and cotton goods, in fact more manufactured goods of every kind, than any other country in the world, and in most of the great staple industries more than any other two countries combined. We employed more men and paid a larger total of wages. The following statistics indicate the extent to which we were ousted from our old place:

#### PIG-IRON PRODUCTION

Average.		Great Britain. Tons	Germany. Tons	United States. Tons
1876-80	..	6,600,000	2,100,000	2 200 000
1901-05	..	8,700,000	9,300,000	18,200,000
1913	.. ..	10,404,000	16,656,000	31,212,000
(1929	.. ..	7,580,000	19,440,000 <sup>1</sup>	42,270,000)

#### STEEL PRODUCTION

1876-89	..	1,000,000	510,000	810,000
1901-05	..	5,100,000	8,000,000	15,300,000
1913	.. ..	7,764,000	16,944,000	30,768,000
(1929	.. ..	9,660,000	21,740,000 <sup>1</sup>	56,430,000)

<sup>1</sup> Including Alsace-Lorraine and the Saar.

A similar process was taking place in most of our industries. A few, like the once great silk industry, actually declined and dwindled away. The great majority, while maintaining or even increasing their actual output or their export trade, were being steadily overhauled in total volume of production by their rivals. Moreover, the character, and therefore the employment-giving capacity, of our exports was progressively affected by the selective action of foreign tariffs, which compelled us more and more to export raw materials and half-manufactured goods, or, when required, instruments of production, rather than finished manufactures for consumption. A growing export of yarn and of cotton spinning and weaving machinery boded little good for the ultimate future of Lancashire.

All these factors contributed to create in England an

unemployment problem, even a decade before the last War, more serious than in any other country. Unemployment due to fluctuation in world or domestic trade was no doubt often acute elsewhere. But it was accentuated here by the steady relative increase of the floating underpaid element of unskilled labour, of men dependent on non-productive industries, by the relative diminution of the men employed on skilled industrial work, and by the actual diminution of the population engaged on the most constant of all employment—the fly-wheel of the whole economic system—agriculture. After sixty years' enjoyment of the blessings of Free Trade, the strongest argument that a Liberal leader could urge against any attempt to mend matters was that we had thirteen millions of our people living permanently on the verge of hunger!

Yet as late as 1903, when Joseph Chamberlain launched his campaign in favour of Imperial Preference and of the very modest instalment of domestic protection known as Tariff Reform, the forces arrayed against him proved more formidable than even his eloquence or the passionate enthusiasm of his supporters could overcome. However hard agriculture and a wide range of industry had been hit, there were still many elements that had accommodated themselves to changing conditions and become dependent—or thought they had become dependent—on some foreign source of supply, or feared that such market as they still enjoyed might be prejudiced by foreign retaliation. The great cotton industry of Lancashire still maintained an almost unchallenged supremacy in the "neutral" market, which in its case was still by far the most important. Nothing would make it realize that its whole basis was artificial and precarious, or that Asia, when it wished, could always win back what had once been its own. Contemptuously Lancashire scorned the mutual preference which India was then only too willing to give. The world supremacy of British shipping was even more unquestioned. As for finance, London's position as the centre of international investment and re-investment, of discounting and insurance, and as the controller of the world's monetary system, was one not merely of supremacy but practically of monopoly. Upon

these last two fields, indeed, economic nationalism had hardly yet begun to encroach. Those most directly concerned were not prepared to believe even in the possibility of such encroachment being seriously contemplated.

All these interests were opposed to a change. But even more serious an obstacle was presented by the whole mentality of a nation steeped in the plausible and unscientific arguments and catchwords which passed for unquestionable scientific demonstration. Within a few hours of Chamberlain's first "heretical" speech a baker's dozen of professors issued an encyclical in which with truly pontifical arrogance they denounced his ignorance of the elements of economics and his lack of moral sense. It is difficult to realize to-day that this egregious effusion represented the current belief of the main body of educated public opinion, or that most even of those who supported Chamberlain on political grounds still professed themselves Free Traders in principle, if others would follow suit—indeed, there are still plenty such even to-day. The arguments they used were still mainly based on an internationalist outlook. They talked in terms of the export trade of individual industries, and not in terms of total national production and employment. For that matter they had very little other material. A natural consequence of *laissez-faire* was that the general economic state of the nation was nobody's concern. There were no statistics, except the jejune and in themselves almost meaningless records of imports and exports. The very capacity to think nationally had died out, and is only now slowly beginning to revive. It is necessary to realize this atmosphere in order to understand not only Chamberlain's failure, but the almost incredible timidity of his successors both before and after the War.

For all that the change was bound to come. Trade might revive as it did between 1909 and 1914. But decade by decade the leading protectionist countries were steadily leaving England behind. Slowly but inexorably the neutral market contracted as one country after another embarked on a protective policy, while in what remained we faced ever stronger competitors. Even within the Empire Dominion preference was coupled with an ever increasing

measure of Dominion protection. Less and less could it be said of our oversea investment that it represented British manufactured exports and came back only in complementary foodstuffs and raw materials. Sooner or later the flow of investment itself—still our main source of economic power—would have diminished. Sooner or later our debtors, the United States first and foremost, would have paid off their obligations and emerged as creditors. Once the control of the credit and investment situation passed to countries instinctively or deliberately pursuing a nationalist economic policy, then the last remnants of the internationalist economic system built up by England in the nineteenth century would be destroyed. Long before that, loss of trade, increasing unemployment, and increasing taxation would have forced a change in our policy.

## II. THE POST-WAR COLLAPSE

What would normally have been a long-drawn-out process was enormously accelerated by the Great War. Not only were the chief combatants thrown on their own productive resources, to an extent previously unbelievable, by direct blockade or by the ever present shortage of shipping, but the same shortage combined, in all the more outlying regions of the world, including the countries of the Empire, with existing protective tendencies to hasten the development of local industries and set up new vested interests against international trade. More important still the United States, as the chief supplier of both munitions and foodstuffs to the Allies, were suddenly transformed from a debtor into the greatest creditor in the world, on commercial account alone, on top of which they became the ultimate recipient of the greater part of the exaggerated indemnity imposed upon Germany.

The foundations of the whole nineteenth century economic system were undermined. But the last to realize this were the statesmen who were responsible for the peace settlement and for the control of affairs during the next few years. They could only think in terms of a speedy return to the "normal," and their conception of the normal was coloured

by the general internationalist outlook and phraseology dominant at the end of the War, as well as by the accident of their own personal political traditions. Once more, under the influence of Geneva, frontiers were to lose their importance and economic nationalism would fade away as political nationalism would lose its meaning in a world governed by the system of collective peace. Throughout the peace discussions, and at all the conferences which succeeded, not to speak of the meetings of the League itself, it was bad form to express any views on economic questions which were not, in principle, internationalist. The world was assumed to have gone back not merely to 1914 but to before 1879. Protection was a concession to local and temporary difficulties. Free Trade was the obvious ideal.

It is one of the disadvantages of the system of public conferences that statesmen feel obliged, in attuning themselves to the conference atmosphere, and in order to help to arrive at agreement, if only on a formula or abstract resolution, to use language which in no sense conveys the real intentions of the people whom they represent. Apart from England the last thing any country wished to do, or could afford to do, after the War, was to lower its tariffs. As for the new nations created by the War, their one object after the peace was to confirm and strengthen their hard-won nationality in the economic field, and to break all economic links that might still keep them in dependence upon their former rulers. For ten years the nations increased and multiplied their tariffs, adding complete prohibitions, or quotas, if tariffs were insufficient for their purpose, while their representatives in conference aired Free Trade platitudes or pretended in all seriousness to discuss conventions for the abolition of prohibitions or the enforcement of a general tariff truce.

In one field alone were the internationally minded to secure a victory—a more than Pyrrhic victory. Economic nationalism before the War had not begun to encroach upon the domain of financial and monetary policy. The great banking fraternity everywhere were still completely internationally minded, so far at least as their own activities were concerned. For their purposes the existence of a single

world monetary system was so obviously convenient that they could hardly conceive of any other object of policy being deliberately pursued. By a monetary system they meant the Gold Standard to which they had been accustomed and which had worked very well in their pre-War experience, i.e. since the South African gold discoveries had redressed the currency shortage and depression which had resulted from the demonetization of silver. Few, if any of them, indeed, had conceived the possibility of any other system, or had advanced far enough in economic thinking to comprehend that gold, in itself, is not an ultimate measure of value. Their simple faith in gold, and disbelief in the possibility of a scientifically managed currency system, were naturally only enhanced by the catastrophic results of reckless currency inflation in Germany and in other countries after the War. Thanks to their efforts—and everywhere governments regarded them as experts whose advice could not seriously be questioned—the chief countries of Europe returned to the Gold Standard in 1925–26. We led the van, childishly proud of doing so at the old gold parity, and thus enabling “the pound to look the dollar in the face.”

Never was a more fatal step more lightheartedly taken, or in greater ignorance of what it involved. It is true that at Genoa in 1922 there had been warnings that a return to the international Gold Standard presupposed a greater measure of international trading and a better balance of international payments. But there was no realization of the extent to which the change in world indebtedness and the set policy of the leading countries concerned had increased the difficulties and dangers of restoring a “normal” system which, in fact, had always been a highly artificial one. The world Gold Standard had worked smoothly before the War for the simple reason that there was still only one substantial creditor on total balance of payments, England, and that this creditor was steadily and consistently prepared to cancel her credits by the purchase of goods—regardless of the effect of that purchase on national production—or to postpone them by reinvestment. In 1913, even after allowing for a visible adverse balance of trade of £158,000,000, this country still had a net credit balance



of £181,000,000, equal to more than a sixth of the whole monetary gold in the world. Even then England had only to stop investing for a year, or at most two, and so force others to pay her in gold, in order to bring about a general collapse of the world's monetary system.

Since then the control of the situation had passed into American hands. In 1930, to take a typical year after the restoration of the Gold Standard, the world was under obligation to pay the United States about £328,000,000. Of this sum £156,000,000 was on account of the balance of American export trade, £122,000,000 was interest on commercial loans; £50,000,000 represented governmental war debts. At that moment, of a world total of £2,095,000,000 of monetary gold, over £1,000,000,000 was already in the United States, another £500,000,000 in France (the only other country in a position to accumulate gold). This left less than £600,000,000 to provide the currency reserves (at 40 per cent of the currency in circulation) of the rest of the world, and to meet the ever increasing annual payment which America, under the conditions of the Gold Standard system, was entitled to demand in gold, or rather, had to receive in gold if she was not prepared to go out of her way to take it in some other form.

That the restored Gold Standard did not break down from the very outset was mainly due to two circumstances. One was the enormous expenditure of the Americans, during these years of prosperity and prohibition, on foreign travel (£166,000,000 in 1930). The other was that American financiers, encouraged by the Federal Reserve authorities, managed for several years to persuade the American public to embark upon the unwonted experiment of foreign investment on a colossal scale. In the four years 1925-28 the United States invested nearly £1,000,000,000 in foreign long-term securities. Not only was the gold drain checked, but by July 1928 nearly £120,000,000 of gold had actually found its way back across the Atlantic.

Unfortunately the low money rates encouraged by the Federal Reserve authorities also contributed to the great American share boom which soon began not only to deflect new American capital from foreign investment, but to suck

into its vortex both American and European money from overseas. After the crash at the end of 1929 more money was drawn in to meet liabilities, and political uncertainty in Germany and elsewhere was responsible for yet further withdrawals. Presently American tourist travel and other similar invisible American imports began to dwindle away. Upon this situation were superimposed the effects of a French position in which a favourable balance of payments, including war debts, a reluctance to invest abroad except at short call, and the legal limitations upon the powers of the Bank of France, combined to create a steady piling up of gold. In the rest of the world the available gold supply shrank with terrifying rapidity. This meant everywhere, on the principles of the international Gold Standard, a restriction of credit and currency, and a consequent fall in prices. In the course of 1930 wholesale prices fell some 25 per cent, and the fall continued even more rapidly during 1931.

Such a fall in prices, profoundly changing relations between creditors and debtors, and altering the whole basis of calculation upon which every business enterprise—whether farm, or factory, or even government—was conducted, could only end in a general crisis. By the middle of 1931 the crisis was fast coming to a head. Premonitory trouble in Austria and other countries was followed by the imminent collapse of Germany, which was only enabled to remain, even nominally, on the Gold Standard by a moratorium on all war debts and reparations payments—since extended, in ever increasing degree, to all German external obligations. Within a few weeks we were drawn into the crisis ourselves.

Our own economic position had for some time been growing weaker. More than in any other country the bankers' influence had been exercised with disastrous effect. A policy of drastic deflation enormously increased the real burden of our internal debt while pretending to reduce it. At the same time it directly penalized our export trade. Indirectly the attempt on the part of employers to adjust nominal wages to falling prices led to endless industrial conflicts, of which the greatest and most ruinous, the long-drawn coal stoppage of 1926, was the almost

inevitable consequence of the extra turn of the deflationary screw applied in order to return to the Gold Standard at the pre-War parity in 1925. On top of all these difficulties the policy of Free Imports—by then a sheer insanity—was continued by the immense power of inertia, and by the inter-play of party politics.

While all the world, after a severe but brief set back at the end of 1920, was rapidly recovering after the War, and had, indeed, effectively recovered before the inauguration of the fatal Gold Standard experiment, we continued in a state of relative depression throughout. From 1921 to 1929 we alone suffered from heavy chronic unemployment, the figures only once in all those years falling just below the million mark. More and more, in our own home market as well as abroad, we were being displaced by our competitors. Our imports of foreign manufactures topped the £300,000,000 mark, and, but for our Empire trade, we had become, on balance, importers and not exporters of manufactured goods. A makeshift system of unemployment assistance, in which insurance and relief were hopelessly confused, added enormously to the general burden of expenditure, and so to the costs of British production. Costly schemes for creating work or improving social amenities, desirable as they may have been in themselves, could, under Free Trade conditions, only aggravate the general situation.

All these handicaps were accentuated when the return to power, in 1929, of a Socialist Government, pledged to lavish expenditure, was followed by the beginning of the world crisis. By far the most serious feature of the situation was the disappearance of our net balance of payments, which had fallen to £39,000,000 in 1930 and to an actual adverse balance of over £100,000,000 in 1931. In spite of this the habit of long term oversea investment was steadily maintained, even in the absence of genuinely realized earnings to invest, largely by the use of short-term money left in London by foreigners who found they could get good interest rates combined with what they believed to be the very maximum of security. That belief was shaken by the publication at the end of July 1931 of the May Report,

a document which, in effect, did little more than focus attention on the already well-known fact that the government was not, strictly speaking, attempting to balance expenditure by revenue. Foreign investors took fright and began withdrawing their money—in gold, as they were entitled to do. Neither a £50,000,000 loan raised in France and America by the Bank of England, nor the formation of a Coalition Government, nor a further £80,000,000 loan by that government, could stay the “flight from the pound,” and on September 21st England went off the Gold Standard, i.e. ceased to regard herself as obliged to continue to exchange sterling into gold at the fixed figure of £3 17s. 10½d. sterling an ounce. Her action was followed automatically by such portions of the British Empire as were permanently linked to sterling, i.e. East and West Africa, Malaya and the West Indies, and deliberately by India, Australia, New Zealand, the Irish Free State, Egypt, the Scandinavian countries, Portugal, Japan, and Argentina. The attempt to restore a world monetary system had collapsed.

The restoration of the Gold Standard was a sheer gamble on America's continuing indefinitely to invest and spend abroad on the scale of the years 1925–28. Could any precautions have been taken which would have enabled the experiment to succeed? The answer commonly given is that the experiment was wrecked by war debts, and, indeed, it was to their scaling down or remission that public and official attention was most directed in this first stage of the crisis. There can be no doubt that the war debts, as a series of one-way payments terminating in France and America—to the extent of £16,000,000 and £50,000,000 respectively—did contribute to the breakdown. But it is a complete mistake to consider them as the main cause. A mere reference to the figures already given shows that in 1930 all the government payments to America amounted to only 15 per cent of the total payable to America by the world in that year. Up till that year the total government payments had actually been more than balanced by the money sent back to Europe in the shape of remittances from European immigrants to their relatives. If all reparations and war

debts had been cancelled in 1925 the Gold Standard would still have broken down, and probably almost as quickly.

The main cause of the trouble was that the world as a whole had bought and borrowed, and was continuing to buy and borrow, from America much more than it could afford, and that America was not prepared to take payment either for past or for present purchases in the shape of goods. It is no answer to say that this could have been remedied by lower tariffs all round. What was required was that America in particular should buy more from the world, or the world less from America, or both together. This was precluded, in part by American protectionist policy, but even more by the survival in the world outside of remnants of the old internationalist machinery, and of unqualified Free Imports in this country. One of the special cares of the framers of the Peace Treaties had been to insist on the maintenance of the Most Favoured Nation clause in its most rigid form in order to prevent the formation of economic groups based on differential tariff treatment. Yet only some such system would have made it possible for Europe to meet its needs, and incidentally liquidate inter-European debts, while at the same time cutting down its American imports to a figure that could be paid without draining away European gold reserves.

Even more obvious a contributory cause of the breakdown of the Gold Standard was Britain's obstinate adherence to Free Imports. Over the period 1924-29 the annual excess of British imports from the United States over British exports to the United States averaged £154,000,000. Canada's adverse balance of visible trade with America over the same period averaged £48,000,000 a year, and Australia's £28,500,000. An effective policy of domestic protection in the United Kingdom and of mutual Empire preference would have enormously reduced these figures and to that extent have relieved the strain on the Gold Standard. Nothing, indeed, could be more significant than the fact that an Empire which in the ten years after the War produced over £700,000,000 of gold within its own territories, should at the end of the ten years, as the result of thriftless over-buying, have less gold than it started

with, and be forced off the Gold Standard. I would, therefore, answer the question I have just put by saying that the attempt to restore a world monetary system might have been a success if it had been accompanied by something in the nature of a European customs system with very drastic differentiation against American imports, as well as by an equally bold system of domestic protection in this country and of mutual preference within the British Empire.

But was the re-establishment of an international monetary system really essential?

The inconvenience of fluctuating exchanges, due to the absence of an international monetary system, is a real one, and very obvious to all who are engaged in international trade and finance. But the inconvenience does not extend to domestic transactions, nor to transactions with any other country whose currency system is linked to one's own. Even in general international trade it can be largely obviated by forward buying or insurance. On the other hand, a change in the value of money in terms of goods and services, while far less obvious at any given moment, is far more dangerous, because it affects the whole foundations of productive enterprise, and the very structure of society. In the words of the Report of the Macmillan Committee (para. 204):

"Violent price changes . . . initiate social as well as economic disturbances which leave no part of the national or international order unaffected. . . . A study of history would, we believe, confirm the opinion that it is in changes in the level of prices, and in the consequential alteration in the position of debtors and creditors, entrepreneurs and workers, peasants and tax-gatherers, that the main secret of social trouble is to be found. . . . The problems thus raised transcend in importance any other of our time and generation."

Once it was realized that the new Gold Standard was involving the world in the most terrible price fall in modern history, the best remedy would have been for every one to go off the Gold Standard simultaneously, so as to save the stability of the internal price level, and to trust to the effect of the exchange itself, fortified if necessary by tariff and budgetary precautions, to correct the balance of international payments. Few countries in the world were

fortunate enough to find political and economic leaders with the insight and courage required to steer such a course. Australia, as a primary producer, as well as a debtor on a very large scale, was among the first to feel the fall in prices. Before the end of 1930 she dropped her exchange to 20 per cent below the Gold Standard, accompanying this bold step by drastic public and private retrenchment and by a sharp restriction of imports. When the United Kingdom went off the Gold Standard Australia deliberately kept her pound pegged 20 per cent below sterling, thus bringing it to 45 per cent below gold parity. In this way she was enabled to maintain her internal price level almost unchanged, and to preserve her favourable trade balance so as to be able to honour her obligations, and gradually even to enlarge again her external purchases. By a similar policy of devaluation on a sterling basis, coupled with bold internal development schemes, Sweden has weathered the storm with outstanding success.

In this country the possibility of being forced off the Gold Standard was regarded by the Bank of England, and by the City generally, as a catastrophe little short of the end of the world. The bankers' panic communicated itself alike to Government and Opposition. An emergency Government was formed to save the country, if not the world, from what a few weeks later was universally recognized as the best thing that could have happened. The only immediate basis of co-operation was the carrying out of the May Economy Report, i.e. a further violent deflation, which by itself only aggravated the general economic situation, even if, in the peculiar psychology of the moment, it temporarily restored confidence. The things that really needed doing, viz. a restoration of the trade balance by a bold restriction of unnecessary imports, and a restoration of the price level by monetary action, were for the time being ruled out: the first because it was a "party" policy on which it was not "good form" to insist in a national emergency; the second because nobody concerned had troubled to read or master the Macmillan Report, in which the causes of the impending world crisis had been clearly set out some months before.

By going off the Gold Standard we were saved, in spite

of ourselves, from further progressive deflation. The fact that most of our principal sources of supply of imported foodstuffs and raw materials went off the Gold Standard with us prevented any dislocation of domestic prices, and, indeed, governed the price at which the world outside the sterling area could sell to us. The almost incredible financial sacrifices which we imposed on ourselves in order to produce a series of orthodox balanced budgets served at any rate to impress the financial world at home and abroad, and so paved the way for a skilfully conducted policy of debt conversion on a gigantic scale, as well as to the less desirable result of the return of large masses of undesirable short-term money. With much hesitation and fumbling a policy of domestic protection and Empire Preference was inaugurated, and our trade balance partially rectified. With an immense feeling of pride and elation the country and the whole Empire realized that it was we who were standing solid on sterling, whose price level remained practically unchanged, while the world was still sliding, with gold, towards ever falling prices and ever greater disaster.

Well before the middle of 1932 the Government had secured complete control of the monetary situation and was in a position to aim, so far at least as the sterling area was concerned, at the raising of the wholesale price level which the Macmillan Report had laid down as the guiding aim of monetary policy. This, indeed, was also somewhat hesitatingly and reluctantly professed as the guiding aim of the Government. But these professions were not followed up by any clear-cut positive policy of action. For one thing, in spite of the conclusiveness of the findings of the Macmillan Report as to the monetary origin of the fall in prices, certain members of the Government, and not least the Chancellor of the Exchequer, have continually inclined to treat it as due to over production. Mistaking symptoms for causes they have continually pressed for international restriction of production—in itself only another form of deflation, possibly useful in the case of a few individual products, but only calculated, as a general policy, to aggravate the depression.

Further, the influence of the Bank of England and of the



Treasury, which are still in their outlook deflationary and pre-Macmillan—one might almost use an astronomical parallel and say pre-Copernican—has consistently been exercised against all measures which could have combined with cheap money in order to bring about a moderate reflation. In spite of everything the hope is still nursed in these quarters of a return to gold, as the only true standard of value, and every measure that might make this more difficult has met with steady resistance. The operations of the £350,000,000 Exchange Equalization Fund, the greatest secret gambling operation that the world has ever known, are wrapt in mystery. But it is difficult to resist the conclusion, from such evidence as can be drawn from the course of the exchanges, that its general influence has been exercised to prevent sterling liberating itself more completely from the Gold Standard countries. A typical instance, indeed, both of the deflationary mentality and of the reluctance to abandon all hope of returning to the "pre-War normal," is the fiction by which the gold reserves of the Bank of England are, for the purposes of the note issue, still reckoned at the old parity of £3 17s. 10½d. instead of at their real value of well over £7.

Lastly the Government itself was still largely international in its general economic outlook. Many of its members, including even Mr. Baldwin, still seemed to regard a tariff as more in the nature of a necessary evil in a wicked world than as the natural and normal economic expression of national policy, and habitually spoke as if it could and should be used as a negotiating instrument, not merely to secure specific concessions, but to bring about an approximation to world Free Trade. Few, if any of them, had begun to realize that the progress of economic nationalism, as exemplified by the United States, and by the breakdown of the post-War Gold Standard, had now also invaded the monetary sphere, and that the restoration of a single international monetary system had ceased to be a practical objective. Under this internationalist illusion they could not bring themselves to face, even at Ottawa, the necessity for a definite sterling monetary policy, but preferred to postpone decisions in the hope that a world solution for the crisis

might be found by the World Economic Conference which was due to meet in the summer of 1933.

Meanwhile the general world situation continued to grow worse and worse. Most of the countries concerned, especially those which had suffered from the post-War inflation, or which, like France, had already devalued their currencies, were determined at all costs to stick to the Gold Standard, or at least pretend to do so. They achieved their end, more or less successfully, by the drastic regulation of imports by extra tariffs and quotas, and even more, in many cases, by the deliberate restriction or rationing of all payments. From the point of view of international trade, regarded as an end in itself, these restrictions have been very tiresome. In certain respects they may have aggravated the situation. But they were no more the cause of the world depression, as is sometimes suggested, than the umbrellas in the street are the cause of the rain. In the main they served their purpose by keeping up internal prices inside the several countries, and so averted the complete world breakdown which would have resulted if no such measures had been taken. After the first dislocation, too, they tended to stimulate new production, and were no doubt in large measure responsible for the general improvement in internal trade and in employment which took place in the course of 1933-34. In any case they have enormously emphasized the whole tendency to economic self-sufficiency, and created in each country new vested interests opposed to any return to international trading.

In the summer of 1933 the World Economic Conference assembled in London with the avowed object—so at least every official utterance proclaimed—of restoring an international monetary standard, and of sweeping away the tariffs, quotas, and currency restrictions that were strangling world trade. Any hope, however faint, that there might have been of progress in either of these directions was killed—months before the Conference assembled—by President Roosevelt. Driven by the desperate internal situation in the United States the new President had signalized his advent to office by immediately taking the United States off the Gold Standard, and embarking upon a policy of deliberate price

reflation coupled with vast and revolutionary schemes of economic and social regeneration. Whatever else it was, it was not a policy based on international lines, but one aimed at solving the economic problem for the United States on purely American lines and within the ambit of American jurisdiction. While it was still in the making it was obvious that the United States could neither afford to tie themselves to any outside monetary standard, nor to lower their tariff, nor to give any assurances as to their readiness to co-operate as lenders, or in any other way.

To summon the Conference at all under such conditions was to make certain of failure. But the Conference craving had become an almost incurable passion among post-War statesmen. The then British Prime Minister, Mr. Ramsay MacDonald, was a notorious conference addict, and had set his heart upon presiding over this particular gathering. Of the sixty-six states invited only one, Panama, had refused, shrewdly estimating that by no possibility could it extract from the Conference any advantage commensurate with the hotel bill of its delegate. From all the rest, from Abyssinia and Afghanistan to Uruguay and Venezuela, delegates flocked to London, pregnant with the platitudes which they were determined to deliver to an expectant universe. Officialdom, with a happy instinct for the apposite, had selected as the scene of their deliberations a geological museum. Geologically speaking, almost all the oratorical specimens, from the President's opening allocution onwards, belonged to the meso-Victorian stratum of economic thought. Of the chief American delegate, Mr. Cordell Hull, an old-fashioned Free Trade Liberal, it was said that President Roosevelt had sent him over to represent, not himself, or the United States, but the nineteenth century.

The harmony of these generalities was not long left unbroken. Behind the scenes certain banking representatives, English, American, and French, began discussing the possibility of a temporary stabilization of the exchanges during the Conference as a sort of parallel to the tariff truce which had already been agreed on. President Roosevelt, naturally objecting to any limitation of his monetary freedom, and suspecting, probably with good reason, that

the bankers were really out for permanent stabilization, promptly vetoed all discussion of monetary policy. This rude blast of American fresh air blew away, not only the bankers' cobwebs, but the Conference itself. The Gold Standard countries, who were only interested in getting sterling, and, if possible, the dollar hitched up to gold again, and never had any intention of doing anything about reducing tariffs or getting rid of quotas, promptly retorted that tariff reduction could not be considered except in the light of stable currencies, and suggested that the Conference should be wound up.

This was prevented by the Dominion representatives, notably Mr. Bennett and General Smuts, who were rightly concerned in wishing to save the British Government from identifying itself with the European continent against America, and who hoped to gain time for some really fruitful discussions on Empire monetary policy. The Conference was persuaded to pretend to keep going for two or three weeks more, until it could be decently "adjourned," but there was nothing in its discussions that is worth while recording here. On the other hand, the Dominions did succeed in securing the adhesion of the British Government to a joint Empire declaration on economic and monetary policy. This declaration reaffirmed the economic policy of the Ottawa Conference, laid stress on the urgency of a common policy of raising the wholesale price level in terms of sterling currencies, and of keeping the sterling currencies stable in relation to each other, a policy "facilitated by the fact that the United Kingdom Government has no commitments to other countries as regards the future management of sterling and retains complete freedom of action in this respect." It is in this pledge—so far unfulfilled—to pursue an independent sterling policy, in co-operation with the rest of the Empire, in order to raise the price level, rather than in certain generalities as to the ultimate aim being an international standard when world prices have risen all round, that the essence of this most important declaration is to be found.

From the futility and failure of the World Economic Conference our argument leads in natural sequence, not

indeed of time, but of alternative solutions of the problem, to the Ottawa Conference of the preceding year. At that Conference the representatives of the government of the Empire were able within one month to frame the outline of a new and far-reaching policy of mutual preference embodied in a dozen bilateral agreements. Naturally these agreements do not contain all that may yet be required to complete a fully effective Imperial economic policy. Monetary policy was only dealt with half-heartedly and postponed to the World Conference. Empire shipping and migration were not dealt with at all. The immensely important question of the machinery of economic co-operation for research and other purposes was left over to be whittled down and emasculated to almost nothing by a committee of civil servants, and most of the invaluable activities of the Empire Marketing Board were subsequently sacrificed by short-sighted stupidity at home. Even in the field of tariff preference much more might have been secured, and many difficulties and misunderstandings avoided, if only the British representatives had laid more stress on preference than on the lowering of Dominion tariffs, and above all, if they had not been precluded by the peculiar complex which still invests fiscal policy in this country with an element of the irrational, from agreeing to any tariff preference on the most important of all Dominion products, namely meat.

But these, after all, are details. The essential fact that emerged from Ottawa is that the overwhelming bulk of the trade of all parts of the Empire (except where certain international treaties forbid it) is now carried on under a system of definite and substantial preference in favour of the rest of the Empire. The creative energies of the markets of the Empire will henceforward be directed in the main to mutual development, instead of being dissipated upon an unreciprocating world. More than that, the provisions of three of the most important agreements, those between this country and Canada, Australia, and New Zealand, lay down certain principles of fair competition limiting the imposition of inter-Empire protective tariffs, and provide for impartial tribunals to supervise the maintenance of these principles. Another most important article in one of these agreements,

the Anglo-Canadian, provides for action to be taken against the trade of any country which by government action prejudices the effectiveness of inter-Empire Preference, a provision primarily aimed at the dumping of Russian timber cut by prison labour, but capable of very wide extension.

That so great a result should have been achieved was only possible because the Ottawa Conference was limited to a group of countries between whom the essential economic and political conditions of co-operation already existed. The economic links—of trade, of shipping, of finance—binding the British Empire together were already very strong. Behind them stood a common speech and a common way of thinking, as well as a definite political good will and a common ideal of Empire influencing, in varying degrees, all who took part in the Conference. At the same time the group of countries concerned was large enough in the volume and variety of their productive resources, in the consuming capacity of their markets, and in their available financial and organizing equipment, to afford a basis not only for the maximum efficiency of production, but also for the widest range of complementary exchange and for the monetary system which such exchange requires.

It is, indeed, one of the apparent paradoxes of modern economic development that while the whole conception and structure of the modern state imply a policy of economic nationalism, the technical developments of modern production all demand so wide a range of varied natural products, so large a market to secure the maximum efficiency of mass production, so powerful a financial basis, that few of the existing countries into which the world is divided constitute economic units adequate to modern conditions. The solution of the paradox lies not in flying in the face of the whole tendency of modern thought in order to restore a nineteenth-century internationalism, nor in acquiescing in the stifling of progress by existing national boundaries. It lies in widening those boundaries by bringing together nations in groups large enough to satisfy the technical requirements of modern production, and yet also sufficiently held together by some common ideal, some permanent co-operative purpose, to enlist the forces of economic nationalism on their behalf.

It is to the evolution of the wider patriotism of suitable nation groups, that the world must look for the key to the problem of economic progress as well as for the key to the problem of peace. If so, in carrying out the policy of Empire Preference boldly and to its fullest logical conclusions, we shall find ourselves once again taking the lead in shaping the course of world economics in the coming century as we did in the last, and the Ottawa Conference will live as a notable landmark, not only in the history of the British Empire, but in the history of mankind. To save ourselves by our exertions, and others by our example, that is once more the obvious task before us.

In a certain sense, indeed, others have already partially anticipated us. The United States, starting with the advantage of a long established federal constitution and of internal Free Trade, enjoy at the same time natural resources so ample and varied, and a home market of such consuming capacity as to constitute a practically self-supporting unit. Their economic policy, even while it was governed by almost unlimited *laissez-faire* in internal relations, was definitely and increasingly nationalist in dealing with the outside world. The gigantic internal reconstruction which President Roosevelt is taking in hand, not only of American monetary and financial policy, but of the whole structure of social and industrial relations, inevitably compels America to be even more self-contained, while her internal transformation is in progress, or at any rate to confine her economic energies to her own hemisphere. On a far lower plane of economic development, but with no less vast resources, the Soviet system has equally been compelled, by its whole outlook and by the character of its policy, to work towards an increasingly complete self-sufficiency.

Amid all these movements towards self-contained large-scale economic organization the continent of Europe has stood helpless, divided by national frontiers which have only been multiplied since the War, and by the historic antagonisms of which those frontiers are the embodiment. In a previous chapter I have expressed the view that it is only through the breaking down of those frontiers by the superimposition on the narrower national patriotisms of a wider

European patriotism that the peace of Europe can be secured. The obvious first step in breaking down those frontiers, above all at this time of economic depression, lies in the elaboration of some scheme of economic co-operation which will help to strengthen the sense of European solidarity and forge increasingly the links of mutual interest and contact between the citizens of the future European Commonwealth.

Any effective progress in this direction, however, has been barred hitherto by that survival of the old internationalism, the Most Favoured Nation clause, which the statesmen of the Peace Treaties were so eager to refasten upon a balkanized Europe. The Scandinavian countries, Holland and Belgium, the Danubian countries have all in their turn endeavoured to get together on the basis of mutual tariff concessions and closer economic co-operation, only to be held up by the veto of those who could claim most favoured nation privileges, and by this country in particular. Our attitude has not been too logical, for ever since 1898 we have refused to allow foreign nations to claim most favoured nation rights in respect of any of the mutual preferences we give to each other within the Empire. Nor has it been businesslike. For concessions on our part at this moment could well be used in order to secure counter concessions. To get rid of the restrictions against Empire Preference imposed by the Berlin and Brussels Acts and by the mandatory system in most of our African Colonial territories, and to be free to establish real preferential relations with selected foreign countries, such as the Scandinavian countries, the Argentine, Egypt, or Iraq, which for economic or political reasons might wish to associate themselves with the sterling system or remain within the general orbit of the British political system, would be of far greater and more permanent value to us, than the right to compete on equal terms with Czechoslovakia in the Rumanian market, or with Japan in the Manchurian market. But in this matter our government departments and the Ministers who take their policy from them are still too much under the spell of the nineteenth-century tradition to adapt their policy to the new economic era.



As a matter of fact the necessities of the case and the whole tendency of modern economic thought have found a way of largely circumventing the restrictions of the Most Favoured Nation clause. The quota or quantitative regulation of imports is, of course, in principle a direct violation of most favoured nation treatment. For it means the denial to another nation of the right to secure as much of our import trade in a particular article as, under a regime of equal treatment, it might secure by the cheaper price or better quality of its product. In pre-War days it would probably have been challenged at once. Since the War it has gradually come into use, first of all as an almost inevitable expedient to meet currency difficulties, but more and more as an avowed general policy for bargaining purposes and even for the permanent planning of trade. Of the merits and demerits of quotas as compared with duties this is not the occasion to speak, though I may recur to the subject later on. Enough to say that in the last few years they have increasingly formed the real basis of all economic negotiations and that it is nowadays the quota and not the tariff clauses of economic agreements which really matter. That has been so in the case of our own trade agreements with the Scandinavian countries and the Argentine. It is even more so in the case of most recent inter-European agreements.

The fact is that the era of promiscuous self-regulating international trade and finance is over, and that trade and finance are henceforward going to be regulated on a political basis, whether to secure greater domestic stability or to widen the basis of the political system. Once that fact is clearly realized there can be no doubt that the tariff, which is, after all, the most convenient and flexible method of regulating trade, will be liberated from the shackles of the most favoured nation system, and used for its proper purpose. Quotas and other similar mechanical restrictions may still serve their purpose in the planning of production, but they will naturally tend to be limited to those occasions when their object cannot be achieved by less cumbrous methods.

Our survey of the economic development of the past

century leads us, then, to the following general conclusions. The system of economic individualism, and of its corollary, economic internationalism, which assumes that all economic activities are individual, and outside the purview of the state, has ceased to be possible and is coming to an end. It was only possible, politically, during the phase of emancipation from an older rigid political and social structure which marked the Liberal movement of the nineteenth century. It was only possible, economically, during a period of world expansion and of wide differentiation in industrial progress which made that expansion essentially complementary. Once political issues, whether of defensive security, or of social reform, or of standard of living, or of stability of employment, began to dominate the field that system was undermined. When on top of that there came an ever increasing range of industrial competition, an overtaking, temporary no doubt, of consumption by production resulting from the almost geometric progression of the power of machinery, and last, but not least, the sudden check to all production resulting from a gigantic monetary deflation, the system was doomed. The attempt to confine the new wine of modern economic nationalism in the old wineskin of a rigid international monetary system only burst the wineskin, and has left the new wine to ferment more vigorously than ever.

But the sheer unorganized anarchy of competition between the nations of the world, such as they happen to be at this moment in history, cannot contribute to general or individual welfare in the economic any more than in the political field. In both cases the practical conclusion lies in such a widening of the basis of the structure as can cover immediate needs, defensive and economic, and can find its material and psychological basis in common interests, geographical or commercial, and in the strengthening or emergence of some common political conception to which existing patriotism can be correlated. For us that wider basis, political and economic, is already given. The British Empire, with the outer circle of economic or political dependencies which are, or may yet come, within its orbit, provides, for us at least, our natural starting-point and the object of our main en-

deavour during this next phase of the world's development. In abandoning the policy which we inspired and maintained for nearly a century, and reverting to an earlier policy in which, too, we were once the leaders, we need not be afraid that we are betraying the cause of "progress" for a policy of "reaction." On the contrary, we shall once again, in the rhythmic course of world evolution, find ourselves blazing the trail for mankind.

## OF THE PROBLEM OF FREEDOM

## I. OF THE BRITISH CONSTITUTION

IT is not only the problem of peace and war, or the relation of economics to politics, that demand restatement in the light of the conditions and ideas of a new age. The very foundations of political belief, as they affect the purpose of the state, its relationship to the individual, its constitutional structure, are being called in question. The accepted dogmas of the nineteenth century are being challenged as directly and as contemptuously as ever that century challenged those of its predecessors. The divine right of the majority is going the way of the divine right of kings. Freedom of speech, of the press, the right of free association for the furtherance of political ideas: these things are to-day abolished over a great part of Europe. What is more, their abolition is justified as desirable in itself and intended to be irrevocable. "The issue of freedom," to quote General Smuts, "the most fundamental issue of our civilization, is once more squarely raised by what is happening in the world, and cannot be evaded." In Russia the new regime of Communism preaches the suppression not only of all individual rights but of individuality itself in the interests of the hive. In Italy the new conception of the corporate, "totalitarian" state has quickened and enriched patriotism, but tolerates no thought that goes outside its formulas. In Germany all else is to be sacrificed to the assertion of a more or less mythical Germanism by the expurgation of all "non-Aryan" elements and "non-Aryan" ideas. Here are three quotations which speak for themselves:

"To claim to reconcile the State and liberty is nonsense."—*Lenin*.

"Nothing counts outside the State . . . the State creates the law."—*Mussolini*.

"The State dominates the nation because the State alone represents the nation."—*Hitler*.

Where will all this lead us? What is there in all this criticism of hitherto current faiths that is justified? What sound constructive ideas underlie or are blended with these movements that are sweeping along other peoples, and are not without their influence on our own political life? What should we be wise to adapt or remodel in our institutions in the light of changes elsewhere? What, on the other hand, should we fight to the death to maintain? Is British freedom still worthy of the eternal vigilance of our defence, or is it only an out-of-date illusion to be forgotten in the new exultation of British Communism or British Fascism?

My answer would be that British freedom is something much older, more deeply rooted in and intertwined with our being, more instinctive and truer to life than the abstract doctrines of individualist liberalism which are the real object of attack to-day. We have always been concerned, in Burke's words, "to prove the pedigree of our liberties", and to prize them as "an entailed inheritance derived to us from our forefathers and to be transmitted to our posterity." Our system of representative and responsible self-government is the outcome of an age-long growth which is still in progress. It owes little to theories of democratic representation or to the abstract right of majorities to rule. We can afford to modify its system of representation, its methods of government, its rules of Parliamentary procedure, in order to meet new conditions. We can prune away excrescences. We may even engraft new features proved useful elsewhere. But we shall be wise, in adapting the ideas of the twentieth century, as in adapting those of the nineteenth, to preserve the essential living fabric of our constitution, to cherish that continuity which is the very soul of a nation.

Law and order are the indispensable conditions of true liberty, as anarchy and arbitrary power are its negation. The foundation of our freedom was laid by the organizing genius of our Norman kings. Thanks to William the Conqueror and his successors, rulers like Henry II and Edward I, England enjoyed order and unity under a strong and efficient government long ages before the rest of Europe. No feudal anarchy lifted its head against the

Sovereign in order to exercise a narrower but infinitely more grievous tyranny over a smaller field. At an early stage all Englishmen came directly under the authority of the King and were united and made equal alike in obedience to that authority, and, if necessary, in opposition to its excessive or arbitrary assertion. It was no mere revolt of lawless feudatories, but an English nation, represented by the barons, great and small, by the bishops and clerics, by the mayor and citizens of London, that faced King John at Runnymede, and wrested from him the Great Charter to which we rightly look back as the starting-point of the evolution of our liberties.

The very core and essence of those liberties is the "Reign of Law," the principle that the Law is something above and outside the State, and that the actions of the state and its officers are, like those of other citizens, subject to the Law. With us the Law has never been regarded as a mere emanation of the will of the Government, but always as something pre-existing and supreme, the all-enveloping medium within which monarchs or governments as well as ordinary citizens live and move and have their being. The natural corollary of this conception of the Law is that its modification can only take place by something approaching general consent. That requisite of consent for changing the Law—including in the term Law the King's right to levy taxation—is the root from which sprang our Parliamentary system, with its representation of the various interests and elements in the national life and with its elaborate provision for full discussion. Convenience long ago ruled that a decision on each stage in these discussions should be taken by a majority vote. But the idea that a majority in the House of Commons, just because it is a majority, should be entitled to pass what legislation it pleases, as expeditiously as it pleases, and regardless of the extent of the changes involved or of the intensity of opposition to them, the idea, in fact, that majority edicts are the same thing as laws, is wholly alien to the spirit of our constitution.

In that Parliamentary system the various elements and interests, the Crown, the great nobility, the shires and the boroughs, met and balanced each other, and their balance

was an important factor in the maintenance of liberty. The attempt to distort that balance in the seventeenth century, first in favour of the Crown and then in favour of the House of Commons, ended in 1660 in what was in both senses of the word a Restoration. That it was restoration, and not a reaction in favour of continental absolutism, had to be reasserted in 1688. There remained one inherent weakness: the separation of executive responsibility from legislative power and financial control. That separation is at all times and everywhere provocative of friction, and difficult to reconcile with administrative efficiency in war and peace. It lay at the root of the domestic struggles of the seventeenth century, as it was responsible, more than a century later, for the Second Civil War which ended in the secession of the American Colonies. Too late to avert that disaster, but in good time to save a second Empire from a similar fate, we evolved the solution known as Responsible Government. The essence of that solution lay in the identifying of the Executive Government with a stable majority in the Legislature. The business of securing that majority from Parliament and from the electorate has profoundly modified the position both of Ministers and of the Crown. But in essence, as well as in theory, our government still consists of a body of Ministers appointed by the King in virtue of the fact that they can undertake effectively to carry on "the King's Government" in Parliament.

That is their primary responsibility, and it is one, to quote a striking passage of the Report of the Joint Select Committee on Indian Constitutional Reforms, which "the Executive cannot share with any Legislature however answerable it may be to that Legislature for the manner of its discharge." The conception of government by Parliament, of Ministers appointed by a party majority, is in utter contradiction, not only to the letter but to the whole spirit of our system. It is the failure to understand this which has been the chief source of weakness in foreign constitutions which have imitated the outward forms without retaining the real substance of their British model.

By the beginning of the nineteenth century another practical issue presented itself. Both the franchise and

the distribution of seats which had once served as a fair representation of national interests and as a reasonable mirror of national opinion, had become out of date. Important elements in the national life were unenfranchised because they were not possessed of the qualifications which were the natural guarantee of responsibility in simpler ages. Great new industrial centres had sprung up which were unrepresented. On the other hand, localities without industries or inhabitants survived as "rotten boroughs" in the gift of wealthy landowners. The Reform Act of 1832 gave expression to the needs and the views of the mercantile and industrial middle class and redressed the balance against the domination of a landed oligarchy. Subsequent measures extended the franchise and secured the liberty of the wage-earner against the oppression of an unregulated capitalism. In more recent days woman has been given a new position in the state in order to enlist her help against the tyranny of neglect in all those social questions that most closely touch her life and that of the home.

But if the constitutional changes of the last century were in the main designed to meet real needs, their shape and character were deeply influenced by the dominant ideas of the age. The abstract individualism or rationalism of Voltaire and Tom Paine, of the French Revolution and of the whole of the continental Liberal-Radical-Socialist-Communist "Left" of succeeding generations, inspired, or at least coloured, the outlook of one great English party and became more and more the groundwork of accepted political phraseology in all parties. So long as the practical application of the Liberal idea coincided with the actual requirements of the time, and was governed by the persistence of older traditions of government, all went more or less satisfactorily. What is confronting us to-day is the fact that in working itself out towards its logical conclusion the Liberal individualist idea is reaching a point at which it threatens both the efficiency of government and the true freedom of the individual.

No one can afford to ignore the immense contribution which in its day the great Liberal idea made to the progress of mankind. The sweeping away of paralysing superstitions,



the breaking down of barriers of caste and privilege which had long lost any real justification, the assertion of the intrinsic worth of the individual as such, and of his right to opportunity for development, these are permanent gains for which posterity must ever be thankful to the champions of human emancipation. Yet Liberty, Equality, and Fraternity, glorious watchwords of the attack upon the old order, could offer little towards the positive shaping of things when the battle was won. Behind the ideals, the hopes and dreams embodied in them, lay a conception of the structure of human society too abstract, too remote from reality, to afford a sound foundation for constructive effort. The starting-point of everything was the individual, both rationalized and idealized, only waiting to be freed from the fetters of ignorance, class feeling, racial or national prejudice, to be able, by the guidance of enlightened self-interest, to manage his own affairs, and to say his say through such minimum of collective organization as might still be necessary in a brave new world. Naturally rational, naturally peace-loving and law-abiding, he alone was to be taken into consideration. All else, nations, races, creeds, institutions, traditions, were either matters of machinery which could always be rearranged as reason dictated, or accidents which could be disregarded. It was a conception essentially unhistorical, unbiological; tending, in spite of its spiritual fervour, towards purely mechanical, arithmetical, and, in the last conclusion, unmoral solutions.

In the field of politics the logical conclusion of the Liberal idea was universal suffrage—"one man one vote, one vote one value"—and complete control by the voter over Parliament and Government. Taking as an accepted principle what English usage had developed as a convenience in a very different setting, namely decision by majority vote, it meant ultimately what has been described as arbitrary government by the odd man. Only an unlimited optimism could assume a diffusion of intelligence and sweet reasonableness which could reconcile such a conclusion either with effective government or with individual freedom. Hardly less optimistic was the assumption that political equality would long tolerate the economic inequality that was the

inevitable result of economic liberty as conceived by the economists and embodied by them in that curious offspring of the individualist creed, the old "orthodox" economics.

To understand the political evolution of the last century it is necessary to remember that the orthodox, *laissez-faire* school of economics, with its pretension to scientific certitude, had—in its application to the internal structure of industry, if not to external trade—everywhere captured the intellectual world, and secured the assent of the governing and directing classes, long before the natural logic of Liberal individualism had begun to transfer power to the wage-earning masses. Moreover, it was itself based on a series of crude generalizations or abstractions from the individual experience of a particular class, the employing capitalist. The ordinary features of his business, the current items in his calculations, such as capital, labour, rent, profits, were converted into abstract entities by the simple process of spelling them with capital letters, and treated as fundamental and permanent elements in the economic process, and as having the same meaning, in their collective or national application, as in private business. It was by this elementary process of abstraction that Adam Smith derived the notion of a fixed quantity of national Capital which could not be increased, but only diverted, by the protection of a new industry. In the same way his successors proved to their own satisfaction that, the Wages Fund being fixed, one section of workmen could only raise their wages at the expense of the wages of some other section, and that wages must by sheer economic law, and in the interest of all concerned, be kept down to subsistence level. To quote Ricardo:

"The natural price of labour is that which is necessary to enable the labourers . . . to subsist, and perpetuate their race without either increase or diminution."

It was not unnatural then that the challenge to the *laissez-faire* school, in the sphere of domestic industrial policy at any rate, came not so much from the governing classes, which might have been supposed still to defend

a national and historical outlook, or from the scientists, who were still too busy with their enfranchisement from theology to quarrel with their Liberal allies, but from the champions of the wage-earner himself. Socialism as opposed to individualism should mean the approach to the economic problem from the point of view of society as a whole. Such an approach would have involved a complete recasting of the ideas and terminology of the subject, and would inevitably have led to a more concrete, historical, and biological conception of the economic growth and organization of every national community as an entity of its own. But while traces of such a fundamental challenge to the underlying conceptions of individualist economics may be found in some of the earlier Socialist writers, Socialism as an actual economic-political movement has never attempted to go to the heart of the problem.

The whole of the school of thought of which Marx was the central figure accepted the main conclusions and terminology of the orthodox economists. Only, regarding Labour, and not Capital, as the primary object of their concern, they inverted the axiom that wages, with other costs of production, are a deduction from profits into the equally plausible and equally fallacious axiom that profits are an abstraction from wages. Whether, with Marx, they regarded Labour as the only source of wealth and all profits as robbery, or whether they admitted the theoretical claim of capital and direction to some remuneration, the general conclusion was the same, namely that Labour should, by superseding Capital, secure the whole of Profit for itself. Labour for this purpose might mean the wage-earners organized in their trades (syndicalism), or organized as voters and using the machinery of municipal or national government to take over the direction of industry. The approach to the goal might be, with Marx, by cataclysm and revolution or, with Sidney Webb, by "the inevitability of gradualness"; by direct confiscation or by partial compensation helped by progressively steeper taxation of profits, the proceeds of which would in the interval be distributed to their rightful owners, the wage-earners, in social expenditure. The general conception was the same, a mechanical

inversion of "capitalist" economics, whose underlying assumptions were all taken for granted.

More than that. Nineteenth-century Socialism was not only based on the individualist orthodox economics, but on the individualist outlook generally. It was concerned, not with the interests of society as a whole, or of specific societies, but with those of that particular category of individuals who were defined as Labour or, in Marxian language, as the Proletariat. So, too, it took over, without question, not only the democratic constitutional objective, which might be relied upon to give the "workers" political control, but also the general internationalist point of view, setting against the conception of a freely co-operating and competing international capitalism the conception of an international Proletariat, the "Workers of the World." It is, of course, obvious—and Russia now affords an example—that any form of state Socialism in practice must involve, in its external relations, economic nationalism of a far more drastic kind than anything hitherto known in capitalist states. But throughout the nineteenth century Socialism was still in the propaganda stage, and could afford to inscribe Free Trade, Pacifism, and Internationalism on its banners, while bourgeois Liberalism was everywhere forgetting its original professions and accommodating itself to nationalist policies. The Socialist, Marxian, or Communist movement, in fact, as we have known it, does not represent a fundamental reaction against nineteenth-century Individualism. It is only an equally out-of-date variant of it, sharing its individualist basis, its abstract, mechanical conceptions, its internationalist outlook. The fundamental reaction is only now beginning, and showing itself most clearly where the abstract ideology of Liberal-Socialism has had freest play, namely on the European continent.

With us, in the political field at least, the wave of nineteenth-century individualism was in great measure broken or deflected by our long tradition of free self-government, by the elastic character of our institutions, and by the concrete, practical, illogical temperament of our people. The new ideals, Liberal, Radical, Socialist, interacted with and dovetailed into the existing framework

of our political life. Liberal-Radicalism had somehow to work its way through historic Whiggism, compromising much as it went along. Socialism could only reach influence and office in subordinate alliance with such profoundly British, and inherently anti-Socialist, organizations as the Trade Unions and Co-operative Societies. The Tory Social Reform of Shaftesbury and Disraeli, the Radical Social Reform of Chamberlain and Lloyd George, the Socialist Social Reform of these latter days have all borrowed from and blended into each other.

There are three names that one might select as typical of the intellectual forces that have shaped our domestic policy in the last hundred years: Cobden, Marx, and Disraeli. Cobden personified, with unique persuasiveness, the enthusiastic optimism and logical fanaticism of the Liberal individualist doctrine. If only all tariffs and trade regulations could be abolished, wars and empires would cease, and all mankind would be free to co-operate in the promotion of what Carlyle described as a "bagman's Paradise." The horrors of contemporary life in mine and factory were for him minor and unavoidable details in a beneficent evolution which, after all, afforded to every worker the opportunity of himself, by rigid thrift, becoming a capitalist. Marx, studying these same phenomena, mainly from the reports of Royal Commissions and other material available in the reading-room of the British Museum, built up in imagination his sombre, apocalyptic vision of a Proletariat driven ever lower and lower by a Capital concentrated in ever fewer hands in readiness for the final despairing upheaval in which its control would be taken over. Disraeli, drawing from his own experience as well as from the Blue-books, gave in *Sybil* a no less arresting picture of the actual state of that other England whose existence the facile optimism of the Manchester School ignored. But his conclusion was very different. It was simply that it was folly to allow economic theory to be pushed to such appalling conclusions; that practical remedies were necessary; and that it was for the young men of the old governing classes to face their heritage of responsibility and take the lead in insistence on reform.

Fortunately for England the success of Disraeli's appeal to the historic English outlook was sufficient to save us from the worst excesses of Cobdenism, in the domestic sphere at least, and to take much of the sting out of Marxian Socialism. The last century has witnessed an immense progress in our national life, both on the economic and on the political side, without any breach in the continuity of our social and constitutional evolution. At the same time it is impossible to ignore the extent to which our constitutional framework has, in some directions, been weakened and worn away, and how dangerously near to breakdown it has been brought by forces whose further uncontrolled momentum may carry it on to disaster; while, in others, it has failed to adapt itself to the changes in the structure of the national life or to the tasks with which it has to deal, and has ceased to fulfil its functions efficiently.

The enormous enlargement of the electorate has dangerously diluted the steadying element of political tradition in the constituencies and in Parliament. A vast amorphous mass of voters, like water loose in the hold of a ship, is liable to be swung from one side to the other under the influence of sentiment, panic, or mass bribery. On the other hand, no sufficiently clear division of political principle has yet emerged above the decadence of existing parties to give real meaning to the conflict in the existing constituencies. A Second Chamber, based on a hereditary system that no longer implies any definite function or substantial influence, neither pulls its weight in the ordinary work of legislation, nor affords any real security against revolutionary change. On the other hand, the House of Commons, over powerful in some respects, is for most purposes impotent. Clogged by the volume of its work and the cumbrousness of its procedure, it laboriously registers the decrees of a Cabinet which, in its turn, is becoming little more than a standing Conference of over-worked departmental chiefs, far too busy to have time to think out a coherent national policy in any direction, or to give that true leadership which is the greatest need of the hour.

From these weaknesses has sprung a baffling sense

of frustration about the whole working of our political machinery. The proceedings in Parliament or on the platform seem unreal, devoid of definite purpose, without clear leadership, individual or collective, almost a game or ritual conducted for their own sake, and hardly connected with the urgent needs of the hour. The consequence, on the one hand, is a loss of public interest which, in itself, is dangerous to good government. On the other, there is a growing disposition to challenge the very foundations of our constitutional system, a tendency, on one side or the other, to toy with ideas of dictatorship or party tyranny. The challenge to British constitutional freedom may not appear serious as yet. But it is worth while studying what is happening in other countries in order to understand not only the inherent weaknesses of our democratic system and the dangers that confront it, but also the nature of the new tide of ideas that is flowing so strongly elsewhere. Such a study, distinguishing as far as possible the accidental and incidental motives from the deeper tendencies, may help us to know what mistakes to avoid, what changes to resist, and what reforms to press forward, so that we may be able to cope with the needs of our time, and enable our historic constitution, without loss of its essential qualities, to work out and incorporate in itself what may be fruitful in the ideas of a new age.

## II. OF BOLSHEVISM AND FASCISM

Russia presents, in its most spectacular form, the logical outcome of the individualist rationalist idea as modified on the one hand by Marxian Socialism, and, on the other, by the practical evolution of the party system under parliamentary democracy. In its wholesale sweeping away of existing institutions, in its ruthless levelling of all society down to the proletarian groundwork, in its fanatical atheism and materialism, the Bolshevist Revolution follows in direct spiritual succession upon the French. The similarity, indeed, is due not only to the persistence of the underlying ideas of the French Revolution, but also to the fact that the political and religious conditions of Tsarist Russia

had so much in common with those of pre-revolutionary France. At one stage, too, it seemed possible that, following the French example, the division of the land among the peasantry might have laid the foundations of an essentially conservative community, once the froth of revolution had settled down.

What made the Russian Revolution develop so differently in the outcome was that power, almost from the start, fell into the hands of a small band of men, and even more of a single dominant personality, Lenin, steeped through and through in the Marxian gospel. Russia in some ways was the last country where the proletarian revolution should have broken out,<sup>1</sup> for capitalism in Russia was only in its infancy. It may be that in so far as industry existed in the great cities the lot of the wage-earner was worse than in Western countries where social reform had advanced hand in hand with industrialization, and that this may have helped to give plausibility to Marxian propaganda. But in the main it would, I think, be true to say that industrial discontent had little to do with a revolution which, so far as the masses were concerned, was an instinctive, desperate uprising against the incompetence which for four years had massacred the Russian peasant and working man at the front, and could no longer even feed him at home. The revolution only became Socialist because Socialists happened to secure control of it.

Having secured control of an essentially non-capitalist agrarian state the Socialist leaders proceeded to organize it on the strictest lines of that theoretical capitalism towards which Marx predicted the world was moving. By massacre, gang slavery, starvation, and general degradation they "liquidated" all non-proletarian elements, and, for the first time in history, created a pure proletarian community. This they have proceeded to industrialize, not only in manufacture but in agriculture, on strictly capitalist lines, and on methods largely borrowed from America. To carry

<sup>1</sup> On the other hand, Marx himself once expressed the view that the primitive culture of Russia, its rudimentary economy, and the innumerable mass of its peasantry, made it the only country capable of constructing the true Communist society.



out their grandiose design they have been compelled to reduce the whole Russian people to the barest subsistence level, not to speak of the millions who were allowed to perish of famine, or the tens of thousands who were deliberately worked to death in the timber camps. They have converted Marx's intellectual nightmare into a grim reality.

The method by which a small group of theorists have acquired control of this gigantic scheme of capitalist slavery is significant. The growth of the party system with its machinery for placing both candidates and ideas before the electorate has been an inevitable concomitant of democracy. With us the old parties at least represented, not only two traditionally different tendencies based on a common groundwork of underlying political agreement on fundamentals, but two alternative sets of leaders trained in the arts of government as well as in those of mob oratory or parliamentary persuasion. Elsewhere they have tended more to represent abstract ideas or personal cliques. But everywhere, the more the electorate has been widened, the greater has become the influence of the party organization and the greater its thirst for power. Mr. Joseph Chamberlain's Radical Caucus was but the precursor of that Labour Party machine which, developed to its fullest in Australia, not only itself selects and continuously controls the Cabinet, but, to enforce that control, demands the written resignation of every member of Parliament in advance.

To such a party machine it is intolerable that the harvest of electoral victory should be limited either by the existence of a differently constituted second chamber, or by the opportunities for delay offered by the ordinary machinery of parliamentary discussion. The autocracy of a party machine working through the outward forms of a parliamentary system is thus one of the natural perversions of democracy. When to the normal desire to carry victory over other parties to its utmost is added a fanatical conviction that one party alone is fit to rule, and embodies the only possible theory of government, then we are brought almost inevitably to the final conclusion that all other parties should be suppressed. It was the conclusion drawn

by the Puritans in our own civil wars. It was the conclusion of the Terror in France. It was the conclusion which the Bolshevik leaders deliberately adopted from the outset, and have carried through with a thoroughness which has destroyed every possible focus of resistance and riveted their tyranny for an indefinite future upon a population which, in the political as well as the economic sense, is a true proletariat, a leaderless, unorganized mass of servient humanity.

The system under which all major decisions of policy rest with a party caucus, while the routine of administration and legislation is left to a government and assembly set up on quasi-democratic lines, even if only composed of members of one party, carries with it certain further consequential features. It facilitates the concentration of all real power in the hands of a few chiefs, or even of a single man, and increases the effectiveness of that power in the development and enforcement of policy by freeing them from administrative routine. This division of functions is essentially scientific, and corresponds to the division between General Staff and Army administration which was perfected by Moltke in Prussia. Men like Lenin and Stalin have been, in effect, the chiefs of the Soviet Great General Staff, and only men in such a position could have contrived and kept in motion the colossal and complex machine of Communist government.

Another feature of the Soviet system is the extent to which it can combine the most effective unity of policy with the most far-reaching decentralization. Here, too, consciously or unconsciously, it closely followed the Prussian military model. In the Prussian Army the various corps commanders enjoyed almost complete autonomy, but were kept in line with each other by the influence of General Staff officers all trained in the same school and imbued with a common loyalty. In the same way Lenin could afford to break up the Russian Empire into a number of nominally autonomous republics, while, in fact, enforcing a far more effective unity than Tsarist Russia ever knew. And just as the Prussian system made it easy to incorporate the independent armies of Saxony or Bavaria in a single united

but flexible machine by unifying the General Staffs, so the Soviet system can incorporate any other state with the minimum of change in its ordinary institutions, provided only that those institutions are controlled by a party machine working in harmony with Moscow. It is not only in its ambitions, but through its machinery, that the Soviet system envisages universal domination, and has exalted propaganda into the most formidable instrument of conquest.

During the first few years after the War, the chaos in Central Europe seemed, indeed, to offer an opportunity for the Communist International to pave the way for the extension of the Soviet system to the Rhine and the Mediterranean. In Germany the Spartacist rising was suppressed, but only because at the last minute a moderate Socialist Government came off the fence and gave a free hand to the army and police. In Hungary the Red Terror under Bela Kun actually secured a brief spell of power. At one moment the Soviet armies were almost at the gates of Warsaw. In Italy Socialists and Communists dominated the great cities and took over all the factories in the name of the working classes, an experiment destined to collapse speedily of its own futility. Even in sober England respectable Labour leaders lost their heads for a season, formed a "Council of Action" to prevent the Government intervening on Poland's behalf, and dreamt of a Soviet and water system to be inaugurated by means of a general strike, a dream destined to peter out in sorry fiasco a few years later. With us these aberrations could end good-humouredly, leaving their victims sufficient opportunity to regain their sense of proportion, and ultimately, in some cases, to find their better selves as mainstays of the existing order in a National Government. Elsewhere the fear of the Communist danger has led to violent reactions and stimulated far-reaching developments, which have opened a new era in constitutional thought in Europe and which are not without significance for ourselves.

All over Western Europe Socialism had always emphasized its international outlook. At their international conferences before the Great War Socialists of all nations had vied with one another in the declaration of their

determination to oppose to the utmost a "capitalist" war. When the War came the wave of national sentiment everywhere swept most of them forward in unity of sentiment with the rest of their fellow-countrymen. After the War they naturally tended to revert to type, and in the reaction and disillusionment after the immense and exhausting struggle they found free scope for their critical faculties. The War, they argued, had been brought about by the folly of statesmen and the general wickedness of capitalism. The incompetence of generals had multiplied casualties which, anyhow, were incurred for futile objects. The men who had fought and died, or returned maimed, were, poor fools, to be pitied rather than admired for what they had sacrificed to the delusion of patriotism. Now was the time to get rid of all this folly, and to return, on international lines, to the one issue that mattered, the class war. Russia had given a glorious lead. Let the workers of the world follow her example.

Italy had entered the War with hesitation and on no universal national impulse. Her immense sacrifices seemed to many to have brought her little more than Austria had been willing to pay for Italian neutrality. Nowhere, consequently, was the mood of disillusionment greater after the War. Nowhere was the anti-patriotic reaction more openly arrogant and contemptuous. Nowhere, too, did government and parliament seem less capable of definite leadership, whether to deal with economic problems or even to maintain ordinary law and order. It was in this atmosphere that Signor Mussolini first rallied round himself his little bands (*fasci*) of determined men whose first concern, as he once told the present writer, was to see to it that no one's honourable wounds should be insulted with impunity. The Fascist movement was, first and foremost, a reassertion of Italian patriotism, a justification of the men who had fought and bled for Italy. It was in the next place a determination to suppress social and industrial anarchy, not from the point of view of one class or another, but in the national interest. To achieve these results through the ordinary machinery, borrowed from England, of party meetings aiming eventually at a parliamentary majority

seemed hopeless. Far more dramatic methods were required to make Italians understand the critical nature of the situation. Far swifter action was essential than could ever emerge from parliamentary manœuvres, or could ever be initiated by the "old gang" of politicians. So the Blackshirts, by enthusiasm, propaganda, and violence, captured the countryside, marched on Rome, terrorized, side-tracked, and presently abolished the "old gang," parliament and all, and established their leader in unchallenged, and soon unchallengeable, power.

Whether Lenin or Mussolini is destined to rank as the greatest force of our generation only the future can decide. But whereas Lenin was a cold, relentless fanatic who contrived to translate the abstract theories of Karl Marx into action, Mussolini's claim on history will be that of an original thinker on the fundamentals of politics, as well as a great patriot, a shrewd and far-sighted statesman, and a remarkable administrator. There is in him much of that all-round *virtù*, that talent for creation and reorganization, which marked his two greatest fellow-Italians, Julius Caesar and Napoleone Buonaparte. He shares to the full the latter's skill in appealing alike to the Latin temperament and to the Latin intellect. But for all the boldness of his ideas, and the occasional extravagance of their assertion, there is in him no little of the patience, essential moderation, and pliable statecraft of Cavour.

The essence of Mussolini's power has been the appeal to patriotism, to the conception of service to an Italy which is, or should be, in spirit as well as in historical sequence, the heir of ancient Rome. The lictors' *fasces* embody his historical outlook as well as the method of group organization by which he won power and the "totalitarian" political philosophy for which he stands. The note which he strikes is that struck before him by Rienzi and Dante, by Petrarch and Leopardi, the insistence:

"Che l'antico valore  
Ne gl'Italici cor non è ancor morto."

The same sense of historic continuity has underlain his careful regard for the dignity of the monarchy which achieved

the resurgence of a united Italy, and his anxiety to come to a working understanding with the Papacy which, despite its serious and even fundamental differences with Fascism, is for him a great historic Roman and Italian institution.

From that patriotism flow naturally the qualities he has insisted upon: devotion to the public cause in peace, valour and sacrifice in war, energy, efficiency, pride and cheerfulness in the fulfilment of the task in hand. He has no room for political theories which would throw doubt upon the citizen's duty to serve his country first, last, and all the time; for selfishness, whether of employers and employed, or of parents who refuse to have children; for physical cowardice, self-indulgence, unpunctuality, laziness, or dishonesty. Making all allowance for the sometimes strident assertion of that patriotism against the outside world, and for other defects of the Fascist regime of which a word must be said anon, there can be no denying that by his personal inspiration he has lifted Italy to a new plane of confident energy, of joy in achievement, of eager co-operation, of strenuous manliness.

To understand Mussolini's political philosophy it is necessary to remember that he began as a Socialist. But his challenge to Liberal individualism carried him beyond the superficial inversion of capitalist economics, with its substitution of a mechanical state capitalism for private enterprise, to a more fundamental criticism of the whole foundations of that individualism of which Liberalism and ordinary Socialism are, in a sense, only different sects. For of both the starting-point and end is the individual, or numerical majority of individuals, who decide what form the state is to take, whether of unfettered freedom or of bureaucratic regulation, for their own individual benefit. Against that whole conception he has set that of the nation as an indivisible historic entity, of which its individuals are inseparable elements, shaped by its past, dependent on its present, working for its future, entitled only to claim that they should be allowed to fulfil their respective functions efficiently. That, in his phrase, is the "totalitarian" conception of national life, incompatible with a political system under which party politicians contend by electoral

cajolery for the right to mismanage affairs or even to overturn the whole foundation of the state in the interests of a class or of an abstract theory. To us, who are already in large measure unconscious totalitarians, whose party differences have been the medium of introducing new ideas, but have never, so far, affected our national agreement on fundamentals, the doctrine appears exaggerated in its emphasis. For the Latin mind its assertion has come as a forceful corrective to the logical results of the Liberal creed.

Closely connected with the organic, as against the arithmetical, conception of the state is the conclusion that a Parliament representing nothing more than the arithmetical majority in constituencies which are themselves merely arithmetical and geographic sub-divisions of an "electorate"—a word embodying all that Mussolini wishes to exorcise—cannot be a fitting medium for expressing the needs or the wishes of a nation, least of all in these days when economic questions play so predominant a part. The true method of representation should be functional or "corporative," based on the organization of every function of the national life in corporations. In this way the real forces of the nation would be enabled to speak, with knowledge and responsibility, to each other and to the government, and so to adjust real conflicts of interest and secure real co-operation, while the sham fights and artificial divisions resulting from party and class politics would be relegated to the limbo of out-of-date political machinery. The application of this principle has been under discussion for some years. A National Council of Corporations was created in 1930, but it was only in November 1934 that the councils of the twenty-two corporations with their powers to issue regulations, each in its particular category, over production, prices, exports and imports, distribution, and, indeed, over the whole range of economic and social activities, were formally established. One or other of these bodies, according to the Duce's recent announcements, is destined in due course to absorb and supersede the existing (in effect) nominated Chamber of Deputies. Of all Mussolini's political conceptions this is the most original and fruitful, and has already exercised a profound influence on political

thought in other countries, even beyond the range of those more directly attracted by Fascist methods. In Austria, in Portugal, in Bulgaria, and Brazil the corporative idea has been embodied in some part or other of the legislature.

That the Fascist Revolution has had its seamy side, its brutalities, and crimes, need not here be disputed or dwelt upon. There are more serious inherent weaknesses. The arbitrary and uncontrolled rule of an individual and of a party which, even if upholding the national against the party idea, remains a party, cannot provide the permanent basis of a political system, and may, perhaps, be regarded as only the necessary scaffolding required during reconstruction. The ruthless suppression of all freedom of speech and print for the expression of political thought, and of all machinery for organizing such thought, exalted, as it has been, into an article of faith as well as of present practice, may make for immediate efficiency, but only at the cost of ultimate stagnation or of revolutionary conspiracy. But our dislike of those aspects of the Fascist system which are a denial of the principles of freedom to which we are attached, should not make us overlook the underlying importance of its intellectual and moral challenge to the whole of nineteenth-century political thought, or disdain to consider how our ancient institutions can gain new life and strength from the organic conception which will increasingly dominate the new era.

The development of Mussolini's external policy is easily intelligible from the circumstances under which he won power and from his general political outlook. As against pacifism and internationalism he has emphasized and even exaggerated the importance of armed strength, and the duty of moral as well as material preparedness for war. The young Italian is to be turned into a warrior almost from the cradle. But his actual policy, in Europe at any rate, has belied the fears which might have been inspired by some of his utterances. The League of Nations, as a piece of artificial machinery, based on liberal democratic theories of the equality of all nations, inspired by pacifist ideals, and devoid of all real power, he has always treated with unconcealed contempt. But he has steadily advanced in recent



years, not only towards the conception of a European peace maintained by the co-operation of the main European Powers, but towards that of Europe as a political and spiritual entity. Despite the dangerous gamble of the Abyssinian adventure there is in him, perhaps, more of the Roman and the Ghibelline, and less of the purely nationalist Italian of the Guelph tradition, than the outside world has yet taken into account.

### III. OF GERMAN NATIONAL SOCIALISM

Even more remarkable as a triumph of emotional personality, if not of intellectual force, has been the advent to power in Germany of Adolf Hitler. To understand this we must go back to the original shaping of the man himself. A young house-painter, half German-Austrian, half Czech, is drawn by his ambition from the countryside to the life of a great city like Vienna, and comes into contact with the main currents of its political thought. Socialism was already a power there, but not to anything like the extent to which it triumphed in post-War years. The dominant party in Vienna municipal life was the so-called Christian-Socialist party, directed for many years by a genial and astute demagogue, Herr Lueger, who rallied all the small shop-keepers and artisans to his side by his denunciation of the Jews as owners of multiple stores and large factories, while simultaneously consolidating Catholic prejudice against them as the typical representatives of free thinking and loose living. In the Imperial Parliament, however, an even more powerful and vocal element in those days was the German Nationalist Party, largely representative of the German elements in Bohemia and in other districts where German and Slav came into conflict. The essence of this party's outlook was its fanatical Germanism, its idolatry of Prussian success, its contempt for Austria, which it regarded merely as a battleground in the racial contest, and its avowed desire for the incorporation within Germany of all that was German in the Habsburg Empire, even at the cost of incorporating and suppressing not a few millions of other races.

Of these three influences the one which appealed by far the most powerfully to young Hitler was the last. But he also learned from the second the immense demagogic possibilities of anti-semitism. The process of blending the two policies—still very distinct in the Vienna of those days—into one was enormously helped for him by the study of Houston Stuart Chamberlain's *Foundations of the Nineteenth Century*. This book, one of those voluminous and pretentious world surveys which have a peculiar fascination for the unhistorically minded and temperamentally predisposed, whose main theme was the glorification of the Nordic or German race, and the disparagement of others, and more particularly the Jewish, had an immense vogue in Germany in the early years of this century. With this as his Bible the young Austrian shook the dust of his native country from his feet, settled in Bavaria shortly before the War, and managed, when the War broke out, to secure admission into the German Army.

He fought with gallantry and devotion for his idea. Blinded just before the end, he found himself restored to sight in a Germany which had collapsed, which had betrayed all he had fought for, and which even justified and exalted the betrayal. That the collapse of Germany had been the collapse of an entire nation under an unexampled strain—and of a completeness characteristic of the German temperament—and that none had collapsed earlier or more fatally than Ludendorff and the Emperor, the real and the nominal leaders of the German armies, was beyond his comprehension. For him, with his philosophy, there could be only one explanation, the treachery of the parliamentarians, the Liberals, Socialists, and, above all, the Jews, whom he saw, or thought he saw, everywhere in control of the post-War situation in Germany, consoling themselves for the humiliation of Germany as a nation with the thought of their own greater influence and the triumph of their political ideas. Somehow, at all costs, this intolerable new, and to him unreal, Germany must be overthrown, and the ever victorious, conquering Germany of his dreams, the Germany for whose sake he had left his native country, the Germany for which he had wished to give his life, brought

to new birth again. To that task he devoted himself with nothing but a remarkable gift of revivalist platform eloquence, passionately sincere in its general purpose, though cynically unscrupulous in its methods, and a no less remarkable skill in the organization of party propaganda, which in a few years have made him the idol of the majority of his fellow-countrymen, and the absolute ruler of the whole.

Circumstances certainly favoured his adventure. The parliamentary system in Germany, as in Italy, suffered from the fundamental weakness inherent in all imitations of our parliamentary system, which have failed to provide for those elements of strong executive authority and national outlook which have been maintained in the traditions and conventions of our constitution. Besides, it was given an almost hopeless start. Nothing could have done more to discredit the Parliamentary Republic than that it was virtually imposed on Germany by the Allies, and remained responsible, in German eyes, for every humiliation which Germany continued to suffer at Allied hands. That it did all that was humanly possible to evade or frustrate the provisions of the Treaty of Versailles, in respect both of reparations and of armaments, won for it no recognition from those who, without responsibility, refused to admit that Germany had ever been defeated or that any terms of peace had ever been agreed to. Nor could the suppression of militant Communism by a Socialist Government earn any lasting gratitude from the adherents of the old order in army and police who had been called in to do the work. The Parliamentary Republic stood for defeat, and for all the consequences of defeat, above all for the economic consequences. The great inflation destroyed all the savings of the middle classes. The flood of American investment after 1924 did little to help these, but afforded immense opportunities to every kind of industrial and financial speculator, and gave rise to an orgy of extravagance and vulgar ostentation and to a relaxation of all moral standards. Then, in sharp reaction, the first wave of the great world depression broke upon Germany in 1929. With over six million of unemployed, and with a generation that knew

little, or had forgotten much, about the War, the task of a party leader who passionately denounced everything that had happened in the post-War period, and everybody who had tried to cope with its difficulties, was a comparatively easy one.

From Lenin and Mussolini Hitler derived the method of a highly organized, militant, and practically militarized party seizing control of the state, and then abolishing and suppressing all other parties while still keeping his party machinery in existence parallel to and controlling the ordinary machinery of government. He shares Mussolini's contempt for parliamentary government, for Liberalism, and Marxian Socialism, and his belief in "authoritarian" rule. Yet the underlying outlook is not really the same. Mussolini's Fascism is an evolution from Socialism through Nationalism. The corporative state is of its essence; the dictatorship an incident, indispensable for the immediate purpose, but not necessarily permanent. Hitler's contempt for parliamentarism goes back to his worship of the old Prussian system. He sees in Parliament and parties the forces which Bismarck had to master before he achieved his triumphs, with which he had to compromise afterwards, and which in the end destroyed his work. Only the new Prussianism is conceived as resting not on a hereditary divine right, but on inspired leadership subject to the general concurrence of the German people. On the other hand, Hitler's National Socialism has, on the social and industrial side at least, radical tendencies, inevitable in a party which constituted itself the champion of the unemployed, whether artisan or university graduate, and of the impoverished small trader, which go a good way beyond the moderate guidance that Mussolini has imposed on Italian capitalism. Whether these tendencies, as embodied in the Nazi "Labour Front," or the more purely capitalist outlook as represented in the new directorates of industry, will prevail remains to be seen. The whole course and character of Nazism in the next few years will depend in large measure on its success in coping with Germany's economic problems.

Again, while Fascism and Nazism are both patriotic

reactions against sectionalism and internationalism, they differ profoundly in the character of the patriotism which underlies them. Fascist patriotism is of the normal classical, concrete form in which a country, its inhabitants, and the common political and cultural history of both, are personified and idealized. Race, in the sense of linguistic unity, is only one element in such a conception of nationality. But Germany—or Germandom, to coin an equivalent for *Deutschum*—has never had a clearly defined geographical outline, or a common history, or a common political tradition. Race consciousness has been the only common bond, a race consciousness developed on the one hand as against all that was “Welsh,” i.e. Latin, to West and South, and on the other against all that was Slav to the East; touched in the former aspect with a certain inferiority complex, whether towards the majesty of Rome, towards the power of the mediaeval Church, or towards the material and intellectual splendour of eighteenth-century France; in the latter with an even more definite superiority complex towards the less civilized races whom German conquest or German culture had absorbed, subjugated, or influenced in its progressive eastward advance from the Elbe.

It was this latter aspect that dominated the outlook of Prussia from the days of the Teutonic knights, who conquered and colonized the land of the heathen Prussians, to the partition of Poland and the triumphs of Bismarck’s statecraft and Moltke’s strategy. Fostered by sober historians, the exaltation of the German race was carried to fantastic lengths even before the War by the writers of the Gobineau-Houston Chamberlain school. For these theorists all civilization, all great ideas, all new human values, have been the work of the creative Aryan, Nordic, or German race. Whether in India, in Persia, in Egypt, Greece, or Italy, it was the Nordic element that created a civilization which perished as that element became absorbed in the inferior local races. Comforting as that doctrine was to German vanity in the hour of Germany’s success, it was doubly comforting when that vanity was bruised and broken by defeat. It was not enough to be assured by Hitler and his followers that Germany had never been defeated,

only betrayed. It was still better to be told that the true German was unconquerable, and that the day of his greatness was but beginning, provided only he would purge himself of all alien influences and elements that could cloud his Nordic soul and weaken its "Faustian," dynamic urge to power.

It was to meet this need of the wounded German soul that a whole literature sprang up after the War expounding a philosophy—it would be more correct perhaps to call it a mythology or religion—glorifying the German race, glorifying its supposed characteristics as a race of dominant, forceful, ruthless, warlike supermen, and pouring scorn, not only on democratic or parliamentary government, but on all the constitutional, legal, and social ideas connected with Roman civilization and Christian ethics. Of the exponents of these ideas, largely reproduced in Hitler's own book, *My Fight*, the best known, perhaps, are Spengler and, even more typical, Rosenberg. The latter, a German from the Baltic states, originally Hitler's main guide on foreign policy, has since been entrusted with the "intellectual and philosophical schooling" of the National Socialist Party and of its affiliated associations, including the 2,500,000 Storm Troopers, the millions of workers included in the Labour Front, and, above all, the millions of youths organized in the Hitler Youth. His work, *The Gospel of the Twentieth Century*, devoured eagerly by hundreds of thousands of the half-educated, consequently deserves more than a passing notice.

The gist of it is that race, or rather the German race, is everything, and that the supreme object of politics or religion is to subserve the "honour" (*Ehre*) of that race. By honour he means, however, not what we understand by the word, so much as glorification, fulfilment of racial instincts and desires, self-satisfaction, or interest. Thus one of his essential postulates is that "racial honour demands a territory and enough of it. That is why Judaism and Roman Catholicism are without honour," and he goes on in the name of racial honour to demand the forcible creation of space for one

<sup>1</sup> *Mythos des Zwanzigsten Jahrhunderts*. "Mythos" is not mythology so much as mystic meaning or gospel.

hundred million Germans. "In such a struggle there can be no consideration for worthless Poles, Czechs, etc. Ground must be cleared for German peasants." Only the German is really worthy of freedom. "To allow freedom to Czechs, Poles, and Levantines is to surrender to racial chaos." The standard of all conduct must be the German instinct. Roman ideas of law and justice and individual right, still more ideas of international right, belong to a decadent civilization. "Blood is the new sacrament which displaces the old." Whatever serves the German race is right; treason to the race or even insult to it is the greatest of crimes. No form of treason is more vile than blood-treason (*Blutschande*), i.e. intermarriage with alien blood, destroying the personality and moral outlook of the race.

The immediate objective of this ridiculous campaign of racial megalomania have been the Jews. There were obvious reasons for Jewish unpopularity in Central Europe both before and after the War. In almost every walk of life, apart from agriculture, the Jew was the clever, pushful, persistent competitor who had secured a dominant position in trade and finance, in the professions, in the Press, and in all forms of public entertainment, out of all proportion to any success which he has achieved in the quicker-witted and more actively competitive environment of this country or even of France. In the great post-War inflation the Jews were more skilful in anticipating or evading its consequences. In the subsequent boom they were not the last to make their fortunes, and in the forefront of those who blatantly displayed the fact. All this afforded good material, when the great depression came, for a campaign of demagoguery which is always made more effective by a scapegoat, especially an easily recognizable one.

There were deeper reasons. The circumstances of their emancipation in Central Europe naturally tended to make the Jews, on the whole, identify themselves with the Liberal movement to which they owed their emancipation, or with its subsequent Socialist variant. It was an intelligible, if historically unwarranted inversion for the champions of the anti-democratic, anti-individualist, nationalist reaction to regard them as the real source and embodiment of Liberalism,

Capitalism, Socialism, Communism, Internationalism, and all the other detestable developments of the nineteenth century. Similarly, their part as the chief purveyors, in the Press or on the film, of what democracy wanted laid them open to the charge of being the creators of modern vulgarity and salacity. All these varied motives, blended with deeper prejudices going back to the Middle Ages, were worked up by writers of the Rosenberg school into a hysterical nightmare in which Judaism figured as a Satanic conspiracy throughout the ages to dominate and destroy mankind, a cancer devouring and at the same time poisoning German life, with which only ruthless excision could deal.

The result of all this fantastic nonsense has been a policy of brutal persecution, humiliation and degradation of its Jewish citizens which has gravely discredited Germany, which has deprived her of some thousands of her ablest men in industry, finance, science, art, and literature, but which leaves her main Jewish problem worse than before. For the problem, such as it was, was at any rate tending to solve itself by assimilation and intermarriage. Whereas the policy of driving 750,000 Jews and persons of partly Jewish origin back into the Ghetto as pariahs and untouchables has only created an impossible situation for which, sooner or later, some solution will have to be found.

At the same time, the anti-semitic aspect of the Nazi creed may not, in the long run, prove as significant or as unsettling for Germany, and even for Europe, as its more fundamental challenge to Christianity itself. A creed which is based on the exaltation of the claims of a particular race, and the denial of the rights both of individuals and of other races, which glorifies force and ruthlessness, and believes in war not only as a means but as an end in itself—the truest expression of the superman's, or the super-race's, will to power—is difficult to reconcile with the Christian conceptions of the essential equality of men, of a world Church or of peace on earth and good will to all. For Rosenberg and his school Christianity, and especially Roman Catholicism, are equally odious for their origin and for their outlook. The Catholic Church is, in their eyes, a Judaeo-Syrian-Etruscan superstition, only suited to essentially servile races.



If it were possible they would wish to displace Christianity altogether by a new "German Religion." But alongside of that they are prepared to compromise on a "German-Christian" variant of Protestantism, and on the continued existence of the Roman Catholic Church in Germany, provided that it acquiesces in the education of its youth on lines that are bound to undermine its doctrines and destroy its spiritual authority.

In its undiluted form the "German Religion" is defined by one of its leading exponents, Dr. Bermann, as "the racially founded belief in the German home-land . . . not concerned about individual salvation, but about the well-being of the people and of the Fatherland as the centre of German religious ethics. . . . The ethics of the German Religion are heroic, based on the old German virtues of courage, chivalry, and loyalty. . . . Its two religious figures are the Nordic Hero of Light as the personification of heroic manliness, and the mother with the child as the most sacred of all symbols in the world of life." As for Christianity, it is "an alien . . . an unnatural, decadent religion . . . in almost all points contrary to the German conception of decency and morals. . . . The greatest sin perpetrated on humanity was the Jewish-Christian belief in sin. . . . Our slogan is: Away from Rome and Jerusalem."

A more moderate "German Christian" view is prepared to accept a Christianity purged, not only by cutting out the whole of the Old Testament, but also by a drastic revision of the New Testament based on the reconstruction of Christ as a Germanic warrior figure. The Old Testament, says Rosenberg, must be got rid of once and for all, and its sordid Jewish tales replaced by Nordic sagas. As for Christ, he was, no doubt, partly of Amorite and consequently Nordic descent, and a reversion to Nordic type. That is the "true" Christ who scourged the traffickers in the Temple and said: "I come to bring not peace, but a sword." The Sermon on the Mount is, for Rosenberg, "obviously a feminist, Semitic accretion" which should be expunged. So, too, the doctrine of the Crucifixion and Atonement, "a debasing and debilitating idea." The Crucifix, indeed, should be got rid of everywhere, and

replaced by the Christ-Light God with a spear. In any case, if any room is to be left for Christ's teaching of love, it should be clearly and explicitly subordinate to the German doctrine of racial "honour." "Christianity has not brought us our morality: it owes such lasting value as it has to the German character."

How far the main body of German Protestantism will, in the long run, be seriously influenced by these ideas it is difficult to say. There has been a strong and so far not unsuccessful resistance among a large section of the clergy supported by their congregations, even to the comparatively mild instalment of Germanization which at first enjoyed definite official support. The Roman Church has, naturally, taken a stronger line and the two books above quoted have been placed on the Index, while the Pope has publicly denounced the Nazi exaltation of racial pride and "of thoughts, ideas, and practices which are neither Christian nor human." So far the Government has evidently been unwilling to provoke an irreconcilable conflict with Rome, or even to push German Protestantism too hard. But it would be a mistake not to pay serious attention to views which, after all, express the real opinions of those who control Germany to-day, and which are being absorbed by masses of eager and uncritical readers as a new revelation.

It may be that all this is only a ferment which will settle down as Germany has to deal with its practical problems. Experience may similarly also prove that the glorification of war, and the open avowal of the determination to seize by force all the territory Germany may think she needs for her "honour," over and above the incorporation of all territory actually inhabited by Germans, have only been the effervescence of Germany's reaction against a one-sided disarmament which will presently subside into a genuine desire on the part of the new rulers of Germany to live at peace with their neighbours. The event alone can tell, and it would be equally unwise for Germany's neighbours to reject Herr Hitler's recent professions of peaceful intentions as wholly insincere, and to relax their vigilance and readiness to meet the danger of a German surprise attack. The fate of Roehm and of those other friends and associates of

Herr Hitler who were killed off last June is not without its significance in the international field.

All this is as it may be. What concerns us most, for the moment, is that the mass of the German people have accepted with almost delirious enthusiasm a political creed which, both in its internal aspect and in the implications of its external policy, leaves no room anywhere for what we mean by justice or freedom. In dealing with the defects of an ill-adapted parliamentary system they have, to use their own metaphor, poured the child out with the bath. There are, no doubt, many healthy and vigorous elements in this new resurgence of the German spirit, as there was much that was morally lax and politically inefficient in the regime which it has overthrown. But nowhere in Europe has the reaction against nineteenth-century thought presented itself in a cruder form, or in one more disquieting in its menace to the very foundations of Western civilization.

Interesting in its constitutional as well as in its international aspect has been the reaction of the Nazi movement upon Austria. Here the problem of reconciling, on parliamentary lines, the views and interests of an essentially conservative and Catholic peasantry and of an aggressive and militantly anti-clerical Socialism concentrated in Vienna and a few other centres, was difficult enough, coupled as it was with the economic problems arising from the breaking up of the Habsburg Empire and intensified by the world depression. It was made impossible when Germany, upon the failure of the Nazi movement to stampede Austria, as it had stampeded Bavaria, settled down to a campaign of economic bludgeoning, subventioning of revolutionary violence, and subversive wireless propaganda, with the deliberate purpose of overthrowing Dr. Dollfuss's Government and incorporating Austria in the Nazi system. The result from the international point of view has been to create a reaction which would seem to have weakened, perhaps even killed, the idea of *Anschluss* by reviving Austria's old historic pride, her fundamental dislike and contempt for Prussianism and her conviction that she has a mission to fulfil in contributing to the future history of Europe. On the constitutional side that Austrian revival has

led, after the inevitable suppression of parliamentarism and party politics and of an abortive Socialist revolution, to the emergence of a new conception of government which, while "authoritarian," is based on a philosophy very different from that of Fascism, and even more from that of Nazism.

The new Austrian constitution includes, as one of its main features, a scheme of industrial and agricultural corporations, in which Capital and Labour will be equally represented, and it is intended that, ultimately, the scheme is to be based on the election of delegates from factory and parish to district councils and from these to provincial councils, and so to the national corporative assembly. There is thus a democratic, if not a parliamentary, foundation in view, while a referendum on legislation is apparently also contemplated. Parties are to be eliminated altogether, and not, as in Italy or Germany, only suppressed in favour of a single dominant party controlling the state. These are, however, minor differences compared with the fundamental distinction that while Fascism is at bottom pagan in the classical sense, and Nazism barbarian and anti-Christian, the new Austrian polity is avowedly based on a Christian and Catholic outlook. It takes a series of Papal encyclicals as the starting-point of its social policy, and rejects the whole doctrine of racial self-glorification and intolerance by which Nazism is animated. If the peace and the economic recovery of Europe depend, as has been argued in previous chapters, upon the possibility of co-operation between the nations concerned, and on the growth of a common European patriotism, then both the maintenance of Austria's independence and the success of her constitutional experiment are matters of the greatest moment.

#### IV. OF THE DANGER NEARER HOME

Italy, Germany, and Austria are not the only countries in Europe where parliamentary government has been suppressed. But such suppression elsewhere has been avowedly based on some form of open or veiled dictatorship to meet an emergency and not on any fundamental revolution in constitutional outlook. The same may be said of the

almost dictatorial powers with which President Roosevelt for a time succeeded in investing the American Presidency with the consent of Congress and by the wish of the nation. More significant for our purpose is the situation in France. There we can see the working out of parliamentary democracy in its continental form, uncomplicated by the special factors which have affected the other countries whose political evolution we have been considering. That France is on the eve of a serious constitutional crisis is obvious. Government, Parliament, and all who are charged with the execution of the laws and with the administration of public affairs have lost authority. Recent scandals have impugned the probity of rulers whose collective incapacity—as distinct from their individual ability—has been increasingly brought home to the public. The question is whether free government can recover its prestige and authority by bold measures of reform, or whether France is fated to follow the example of her neighbours.

There is little evidence as yet of any fundamental change of outlook which would lead France to jettison the inheritance of her Revolution, and to embrace the conception of the omnipotent state or the religion of racialism. Her individualism, her passion for intellectual freedom, and her underlying humanism go too deep for that. Moreover, the real extremes of political outlook, both to right and left, are still vastly outnumbered by a great central body of opinion shading off in each direction, but yet sufficiently coherent to provide the groundwork of a free constitution. The gravest weaknesses, moreover, of the parliamentary regime in France would seem to be remediable, if public opinion were once convinced of the necessity of applying the remedy. In the light of our own experiences and tradition, what is most obviously needed is the restoration of the authority of the Government as against Parliament, and of the independence of Deputies as against their constituents, by changing certain features of constitutional law and procedure whose vital significance is usually overlooked.

A clause in the French constitution which makes dissolution depend on the concurrence of the Senate, and so practically impossible, deprives a French Government of

the whip which keeps our Parliament docile from fear of the individual consequences of an election to each member, and conscious of its responsibility and duty in maintaining the authority of government. Governments in France live a hunted existence from the day of their formation. Ministers are continuously harassed and overruled by the Parliamentary Commissions, whose chairmen habitually regard themselves as the only rightful arbiters of policy. The natural remedy would seem to be to give the Government, as in England, the unfettered power of dissolution and, further, following another English precedent, confine to the Government all power of proposing increases of taxation or expenditure. It is the enjoyment of this power by Deputies which has made it impossible for any French Government of recent years to stand up for economy or to enforce its views in the matter of taxation. On the other hand, it is this same power of unlimited initiative in finance, as well as the altogether excessive power of Deputies over Ministers, that makes the Deputies themselves the helpless tools of every petty local and personal interest, and the mouthpieces of every irresponsible demand. Reform on these lines has been advocated for some time past by a group of reformers whose chief exponent has been M. André Tardieu, whose book, *L'heure de décision*, has obviously been influenced by a close study of our parliamentary methods. Their ideas were taken up with great vigour but, perhaps, with too uncompromising directness last autumn by M. Doumergue. His successors have hoped, apparently, to achieve the same ends, in part at least, by a more tentative line of advance, while concentrating in the main upon relief of the economic situation. It has yet to be seen whether they will succeed, or whether a new crisis will show that more decisive measures are needed to enable France to pull herself together and restore the authority and efficiency of her constitutional system.

For us the most immediate danger lies in a different direction. It lies, not in the weakness of government as against Parliament, but in the prospect of an essentially national system of government being superseded by direct, unqualified party government. Hitherto our governments,

while depending on a party for support, and influenced both in legislation and administration by party views and party interests, have still by the sheer force of tradition been in a large measure national and constitutional in outlook. That tradition counts for very little to-day in certain sections, at any rate, of the Socialist Party. On the other hand, the whole of that party is permeated with the theory that it is the Party that should govern, that Ministers and Parliament only exist as machinery to give effect to the Party view, and that the rights of a majority, once secured at an election, should be absolute and subject to no check or delay in the House of Commons, from the House of Lords or from the Crown.

That view has been expressed with startling frankness and complete logical clarity by Sir Stafford Cripps and his co-authors in *Problems of a Socialist Government*. They aim, in Sir Stafford's words, at a "complete severance with all traditional theories of government." If a Socialist majority is returned at an election it will be the Party and not an individual Prime Minister that will take office. The Party will select the Prime Minister and his colleagues, submit the list to the Crown, and "their appointment will follow." More than that, the Party "must have the right at any time to substitute fresh Ministers in the places of any it desires to *recall*," and that is to apply to the Prime Minister as well. Let us follow the subsequent procedure as envisaged by this exponent of Leninism for England:

"The Government's first step will be to call Parliament together at the earliest moment and place before it an Emergency Powers Bill to be passed through all its stages on the first day. This Bill will be wide enough in its terms to allow all that will be immediately necessary to be done by ministerial orders. These orders must be incapable of challenge in the Courts or in any way except in the House of Commons.

"It will be necessary—if constitutional forms are to be complied with—to obtain the consent of the House of Lords to this Bill, and that consent must be given immediately, as otherwise the Socialist Government cannot be responsible for the safety of the country or the continued supply of foodstuffs and raw material from overseas.

"It must in any event be made clear at the General Election that the mandate of the Party covers the right to call for the immediate abolition of the House of Lords upon the first signs of obstruction."

After this first comprehensive measure there is to be an annual Planning and Finance Bill to

"take the place of the King's Speech, the Budget, financial resolutions, and the second reading debate on most of the important measures of the year. It is idle, once Parliament has decided upon a certain course of action, to discuss its wisdom again and again. Once the Bill is passed, most of its provisions can be given more detailed legislative shape in Ministerial orders, which will be submitted formally to Parliament for approval."

By thus practically eliminating all discussion the Socialist members of Parliament are to be liberated in order to serve as commissioners—in fact as "commissars"—to see that "the will of the Central Government is obeyed and its plans implemented" by the Regional Authorities into which the country is to be divided for the speeding up of the policy of nationalization. The work of a commissioner, as conceived by Major Attlee, in another chapter of the same work, is

"to work with others, with the local authorities, with the Trade Unions, with the co-operative societies, and last, but most important, with the local Socialists.

"He is the local energizer and interpreter of the will of the Government. He is not impartial. He is a Socialist, and therefore in touch with the Socialists in the region, who are his colleagues in his campaign. It may be said that this is rather like the Russian plan of commissars and Communist Party members. I am not afraid of the comparison! We have to take the strong points of the Russian system and apply them to this country."

What rights or functions are to be left to members of Parliament of other parties is left unexplained. Meanwhile, the greatly enlarged Civil Service is to be filled up by experts, whose first qualification, however, must be the wholeheartedness of their Socialist convictions, though Sir Stafford Cripps *hopes* that it will be unlikely that the complete change in administrative outlook required "will



necessitate the retirement of many civil servants or their replacement by persons of known Socialist views."

The object for which all these powers are to be sought is the expropriation of all individual property. To quote Mr. G. D. H. Cole:

"No Socialist can recognize any claim by private owners to receive back in some other form the value of their property when the public takes it over. Our object is expropriation, not a mere change in the form of claims to ownership."

The method of expropriation is to be the direct seizure of the physical assets, e.g. the land, stations and rolling stock of the railways. At the same time, in order to meet the awkward fact that "property-owning in Great Britain spreads right down into the working class, and much property is held by Trade Unions, Friendly Societies, and other bodies," there is to be, at the outset at any rate, a "sharp differentiation between large and small property-owners," and some transitional payment for, say, four or five years of a part of the income of existing owners as an *ex gratia* allowance.

Both the object and the method to be employed in securing it involve the destruction of all that we mean by the word freedom. The right to some measure of private property is an essential attribute of human personality and the first and most obvious *differentia* between the free man and the slave. As for the rest of the plan as outlined, it makes an end of all that we have understood by parliamentary government; it abolishes the Reign of Law, which is the very foundation of our liberties, and avowedly sets up a party autocracy on the Russian model. That the Labour Party Executive has mildly shaken its head over this dangerously frank work does not affect the fact that its main conclusions have since been adopted by the Labour Party Executive and by the last Annual Conference of the Party, that its authors continue to lead the Party in Parliament and in the country, or that its ideas are only the logical and natural development of the doctrines preached on every Socialist platform.

That anything remotely resembling the Stafford Cripps

scheme should be carried through is almost unthinkable. But even a comparatively modest instalment of such a policy would create economic and political reactions which, in their turn, might imperil much that we prize. A similar policy in New South Wales not so long ago brought that state to the verge of civil war, a calamity from which it was only saved by the intervention of the Federal Government and by the action of the State Governor in dismissing Mr. Lang, the Premier, and forcing a dissolution. Here the danger would probably begin by taking the shape of a rapid growth of some form of extremist opposition on Fascist lines. Such a movement, to judge by the programme put forward by Sir Oswald Mosley in his book and in his speeches, might include much in its professed general aims that would be acceptable to all good citizens who wish to strengthen the authority of government and diminish the disorganizing effects of partisan and sectional conflict, as well as other more definite projects, e.g. the introduction of some measure of "corporative" representation into our parliamentary system, which deserve serious consideration.

But the methods which he frankly outlines differ but little from the Italian, or, for that matter, from those advocated by Sir Stafford Cripps. A Fascist Government, when returned, is to take immediate powers to carry through by Order in Council, subject only to a vote of censure in Parliament, all the legislation which it may require for recasting our social and political life, including the setting up, at the end of its five years' quasi-dictatorship, of a corporative Parliament, based on an occupational franchise. Its supporters will not "be kept hanging about Westminster, but employed in their own localities as executive officers of the Government." What Sir Oswald Mosley does not seem to appreciate any better than Sir Stafford Cripps is that what is possible in Italy or in Russia is not possible with a people like ours. Neither Bolshevism nor Fascism could be carried through against an English opposition without a civil war.

It is towards civil war, or something not far off it, that we may well be heading if things are simply to drift along on their present course. The overwhelming support secured

by the National Government in 1931 was due, among other causes, to a deep-seated desire in the public to get away from the disintegrating influence of party politics and restore a national system of government based on a national outlook. Whatever useful work may have been done, that result, at any rate, has not been achieved. The MacDonald-Baldwin-Simon Coalition has become, in essence, a party government like any of its predecessors. The most solid advantage, indeed, resulting from its formation has been the final elimination from our politics of the Liberal Party as a factor of sufficient consequence to prevent the normal revival of the two party system. On the other hand, its power of winning support by definite leadership, propaganda, and enthusiasm was weakened by the compromises both in policy and in advocacy involved in the mere fact of coalition between men of fundamentally divergent outlook. In any event its formation has merely intensified the irresponsibility, the partisan vigour, and the fanaticism of an opposition which under our parliamentary system, as it stands at present, will be the only alternative government a year or, at most, six years hence.

What is needed is not a compromise between out-of-date policies, but a new political creed whose inspiration must be sufficient not only to carry into power those who most directly advocate it, but also to secure the conformity, however reluctant, of those who oppose it, as the great Liberal individualist creed in its day secured the conformity of Conservatives when in office. It should, in fact, be the only creed in power, though not necessarily in office, during the generation ahead of us. Such a creed must be national in the widest sense, transcending all class and sectional interests; appealing equally to those who care most for the greatness of England's Imperial destiny, to those who are most deeply concerned for the welfare and happiness of its humblest homes, and to those who most dearly prize the freedom of our life—to the best, in fact, in all our existing parties. It must aim at restoring that balance between the elements in our political constitution and in our economic structure upon which true freedom depends. It must be historic and organic, based upon our own individual history

and upon the laws of organic growth, not on the abstract rights of the individual voter or of the omnipotent state. It must be neither Communist or Fascist, Capitalist or Socialist, but essentially English.

It is for those who are inspired by such a creed to give a new life and purpose to the present parliamentary majority which is our immediate bulwark against the dangers involved in a Socialist Party victory. But it is not enough merely to preach a new political gospel unless it can be translated into the terms of a practical and effective policy in every field, and unless we can create the instruments by which policy can be shaped, and its essential character maintained beyond reversal at the next swing of the electoral pendulum. A Cabinet system which will permit of the framing of a coherent national policy, and of its swift and determined execution, and will thus restore the authority of government and the sense of leadership, is the most immediate need. A reconstitution of our parliamentary machine which will set effective barriers to mere unbridled party ambition, while increasing the opportunities for responsible discussion and decision, is the next. There are, at most, four or five years available in which to carry through the immense task of political reconstruction and national reorientation which is needed if our cherished heritage of freedom is to survive. There is no time to lose.



PART II

AN OUTLINE OF POLICY



## FOREWORD

So far I have attempted to outline the evolution of ideas and of events which have brought us to where we are to-day. I have traced, in the field of international relations, of economics, and of constitutional development, the breakdown of the guiding ideas which dominated the nineteenth century. I have given my reasons for believing that the political and economic difficulties threatened by that breakdown in the international sphere cannot be overcome by the crude nineteenth-century internationalism which has been so much in fashion—if not in actual practice—in the immediate reaction after the Great War. I have suggested that the true solution must be found, for our day and generation at least, in the progressive building up of nation groups or commonwealths for co-operation, founded on some principle of mutual cohesion, affording the economic basis for effective material development, and eliminating, as far as possible, the causes of war. In the constitutional field I have indicated my belief that British freedom is something deeper and more enduring than the democratic individualism which is everywhere coming to grief, something that can still be made to hold its own in face of the rival systems of tyranny that are contending for ascendancy over Europe.

My object in the chapters that follow is to set out to the best of my ability the general course of policy which we as a nation should follow in the new era upon which we are entering. If politics is the art of what is possible, then I believe I am right in sketching that course, not on the lines of what might be ideally desirable, but on lines conformable to the trend of world evolution as I see it. I shall endeavour to be practical; to put forward only such proposals as I should be prepared to carry out if I myself were in a position to give effect to them. But I am certainly not putting them forward as a complete programme or suggesting that they can all be carried out in a moment. They are intended, rather, as an illustration of what might be



the outline, or elements, of a coherent plan of policy, animated by ideals which I believe will commend themselves to the great body of my fellow-countrymen, and by that "forward view" which is essential if we are to succeed in a changing world. The urgent need of some such plan to give a clear lead and call to action in the present confusion of aims and policies and incertitude of purpose must be the excuse for my temerity.

## CHAPTER I

### OF THE IMPERIAL IDEA

WE are entering upon a new age. The relationship of states, the structure of society, the ideas in men's minds, are all changing. How are we to meet these new conditions? What is to be the working philosophy to direct our judgment? What master idea is to give coherence to our action? What vision is to inspire our purpose? Some answer, however general, must be given to these questions before we can begin to consider even the outlines of policy, whether at home or abroad.

The political philosophy whose roots go back to the rationalist individualism of the eighteenth century provides no answer to our present-day problems. Once a tremendous ferment and high explosive, it served its purpose in breaking up an old world and clearing the ground for a new. But if it could free the human spirit and liberate its energies, it could not supply a constructive solution to the confusion which it has created. We see all round us its failures, its aberrations, the crude reactions which they have provoked. Class tyranny, state tyranny, race tyranny are the new gospels sprung from disillusionment about democracy. A chaos of narrow economic autarkies threatens to be the end of the vision of world Free Trade. President Wilson's dream of a Geneva millennium where war and aggression should cease for ever is fading before the harsh realities of Japanese or Italian Imperialism: while the strident notes of Herr Rosenberg's demand for "adequate" room in Europe for the German super-race, to be secured by the expulsion or extirpation of "inferior" creatures now inhabiting the adjoining territories, may serve to awaken us to a sense of danger even nearer home.

The failure of the individualist philosophy lies at its foundation. The individual whom it assumes as the starting-point of all its projects—detached, rational, self-interested—is an unreal abstraction. The state, a mere mechanism

contrived to subserve the immediate convenience of this same abstract individual, regarded as an elector, is an idea even more remote from any actuality. A human society is not a numerical aggregation of individuals inhabiting a certain area. It is an organic entity with its own structure, its own history, its own tradition and character. The individuals who, in constant succession, compose and maintain it, are in their turn sustained by its economic life, moulded to its structure, and permeated by its tradition. This is an obvious commonplace to us who are accustomed to think in the terms of biological and evolutionary science. But it is worth while reminding ourselves of it, because most current political thinking is based on ideas and language first developed by writers of an earlier age.

But while it is essential to keep in view the organic nature of human society, it is equally necessary to remember that it is not a highly developed complex organism of a stable, specific type. The state or nation has no standard structure and may be held together by an almost infinite variety of factors. Military and administrative control based on conquest, or on more or less willing submission to superior efficiency, love of the soil, loyalty to individuals or institutions, unity of race or language, of religion, or political ideas—all these may in varying degrees constitute the elements of cohesion. Blended by history, they combine to create that consciousness of unity, that tradition, that characteristic behaviour, which are the real essence of a nation's life. The national tradition may co-exist with many concurrent or subordinate traditions and patriotisms, local, racial, professional. Conversely, states and traditions which have been separate may be combined in a wider patriotism by the emergence of some new factor drawing them together. Some particular factor, again, may emerge of such compelling power as to break up existing states or realign them on a different plan.

The conception of states, in their international relationship, as so many individuals, comparable to human beings, whose relations can be regulated by a common code of laws based on the clear proprietary rights of each, is, therefore, not one which can be pushed to its logical con-

clusion. It serves many useful purposes in the day-to-day business of diplomatic and commercial intercourse. But it cannot solve those ultimate issues which arise when rival and incompatible ideals contend for the right of incorporating peoples or territories within their several spheres. That is the fundamental weakness of all plans for the prevention of war by holy alliances or leagues of nations or by the universal acceptance of arbitration. The individuality of Austria as a member of the League means nothing to Herr Hitler, who regards her as already, in virtue of the sacred principle of race, a part of Germany. What court of arbitration could decide between Fascism and Socialism, whether as an issue in domestic or in international politics? We may yet arrive some day at a world organization so strongly rooted in the allegiance of all its members as to be able to solve by the sheer authority of its decisions even issues of this character, as similar issues have been peacefully solved within existing states. But we still have many stages to travel before that goal is reached, and mechanical schemes which ignore the true character of international relations will hinder rather than help us on our path.

It is equally untrue to the facts to exaggerate the function of the state in its internal aspect by a mystic exaltation of its personality, and by treating it as, in itself, the be-all and end-all of policy to which the individual must be subordinated and for which he must be sacrificed. The individuals who compose a state are something much more important than the blood corpuscles or cells that compose the human body. They are intrinsically higher organisms than the state, and their individual quality is more important than any other element in the structure of the state, whether we think in terms of the average citizen or of those outstanding individuals who, as thinkers, inventors, teachers, and leaders can contribute so powerfully to shaping the character or guiding the destinies of nations and of mankind.

The ultimate test of the success of a political organism is the quality of the individuals whom it fosters and the opportunity which it gives to the development of the highest types of individuality. From that point of view we must

equally reject a social structure based on any rigid system of caste or privilege and one unduly concerned about equality. The ideal structure of society is one sufficiently fluid to enable supreme merit to rise to the top in every walk of life, while normally rigid enough to preserve social traditions and foster character. From the national point of view social gradations are a natural and healthy feature, increasing the opportunity for the development of the highest type of individuality and leadership. These types, whether in politics, in the fighting services, in literary or artistic pursuits, or in commerce, are, as a rule, best developed over several generations, and the idea that each individual is entitled to start from the same point and with precisely the same opportunities is contrary to the whole organic conception of society.

But if the quality of the individual is the ultimate test of a political organism, it is the quality of an individual who is also a citizen. The civic qualities of co-operation, of recognition of public duty, of willingness to sacrifice personal interests, and even life itself, for the common cause are as essential elements in the individuality which we should strive to foster as mere intellectual capacity or self-regarding activity. The objectives to which these qualities should be directed naturally vary with circumstances. In one age courage on the field of battle may be supremely important, in another tolerance in the pursuit of differing religious or political ideals, in another economic co-operation.

These prefatory general considerations are enough to remind us that in dealing with policy we are dealing with organic processes and not with the pursuit of abstract ideals. What is more, they are not organic processes conforming to any standard type, but vary with the particular history, institutions, and traditions of each political entity. There can be no such thing, therefore, as a general political principle or method applicable to all cases, but only a specific policy for a particular state or nation. A policy for Englishmen must be an English policy. It must take as its starting-point the English people as they are to-day, in their individual character, in their corporate organizations, in their historic institutions. It must take the British state system

as it is, in its political and economic structure, and in its position among the nations of the world.

Of what England is and stands for in herself I need say little here. Something has already been said in the last chapter of the story of the growth of our system of ordered freedom. To dwell on the sum of English achievement in war and peace, in statecraft, in art or in science, on the rich diversity, tolerance, and yet deep unity of English life, on the loveliness of England as nature and generations of men have shaped and enriched her, would carry me far beyond the purpose of this volume. We need no extravagant claim to superhuman qualities as a race, no depreciation of the part which other peoples and states have contributed to the progress of humanity, in order to justify a reasoned pride in our country's past, our love for her as we know her to-day, our faith in her future destiny. As Ruskin once said, "We are rich in an inheritance of honour, bequeathed to us through a thousand years of noble history, which it should be our daily thirst to increase with splendid avarice, so that Englishmen, if it be a sin to covet honour, should be the most offending souls alive."

My object rather is to remind my readers that for the purposes of policy England cannot be thought of apart from that wider England of which she is a member, that Empire which she has built up in her own image, and which, in turn, has so affected her life and outlook that she would cease to be England if she were severed from it. I have already, in previous chapters, endeavoured to show that the natural and almost inevitable solution, in our day, of the problems of peace and war, of trade and finance, lies not on the lines of world internationalism, but in an evolution from the existing chaos of small and constantly conflicting sovereignties towards more broadly based nation groups or commonwealths, presenting fewer friction surfaces and affording an ampler foundation for material development; not in trying to ignore and suppress the deep and healthy instincts of national patriotism, but in encouraging them to expand in more generous and comprehensive forms. If so, then the British Empire, as it exists to-day and as it is shaping itself, is no mere accident or anomaly, but a

natural development on the true line of world evolution. In devoting ourselves to developing its resources and strengthening the ties that hold it together, we shall not only serve our own needs, but by our influence and example furnish the best contribution we can make, in our time, to the peace and prosperity of mankind.

That the British Empire embodies the material conditions required for its success as one of the great world units of the future hardly needs arguing. With a territory of over 14,000,000 square miles—more than four times the area of the United States—distributed over every clime, and with a population of some 500,000,000, nearly a quarter of mankind, it is already an immense field of economic activity. But it is, in fact, still largely undeveloped and unorganized, and it would be difficult to set any limit to the possibilities, in terms either of total wealth or of social welfare, of the full development of its resources. Nor can there be any doubt that those resources, and the character of its peoples, could provide the instruments for its defence, by sea, by air, or on the land, against any dangers that can reasonably be anticipated. What is more important is whether it contains within itself those inner qualities of cohesion which will enable it to survive the stresses, internal and external, to which it is bound to be subjected. Is the sense of unity in the Empire, whether based on a consciousness of common interests or on the growth of Imperial sentiment, likely to be powerful enough to hold its own against the forces of nationality within or the economic, political, and military pressures and threats to which its various members may be subjected from without? Is the political genius of our race, which has hitherto kept the loosely knit framework together, capable of finding not merely formulas calculated to avoid immediate deadlock or disruption, but the practical working machinery of effective co-operation for common purposes?

What, in essence, is the British Empire? What does it stand for? What purpose does it serve for the peoples comprised by it? What makes it worthy of their loyalty, their devotion, their sacrifice? To these questions I would reply, in the first instance, that the British Empire, under all the

infinite variety and complexity of its external organization, is yet, in essence, a comparatively simple and intelligible thing. It is the translation, into outward shape, under ever varying circumstances, of the British character, and of certain social and political principles, constituting a definite British culture or way of life, which, first evolved on British soil, have since been carried by our people across all the seas.

There is one feature in that character without which the Empire would never have come into being. That is the love of adventure and exploration, the sea-faring, roving instinct. We must never forget that England began as a settlement across the seas. Our forefathers, Angles and Saxons, Danes and Normans, adventurers, traders, pirates, colonists, conquerors, organizers, came across the seas to establish in Britain the first of our oversea Dominions. For some centuries that spirit of adventure was chiefly busy with the expansion of England within the British Isles, and with the unsuccessful attempt to conquer France. But with the opening up of the New World across the oceans and with the great stirring of the spirit in the days of the Renaissance and the Reformation, the old impulse took new shape. Following, but soon surpassing, their competitors from other lands, our navigators, explorers, traders, missionaries, settlers proceeded in an unending stream, from Elizabethan times to our own, to seek adventure across all the Seven Seas, and in its course to build an Empire. From Drake and Raleigh to Livingstone and Rhodes, from the Pilgrim Fathers and United Empire Loyalists to the farmers who are to-day opening up the Peace River or the back blocks of Western Australia, the roving, pioneering, colonizing tradition has lived on. Checked for the moment, it only needs the restoration of more favourable economic conditions to revive in full strength and release a flood of life-giving creative energy for the benefit of every Dominion as well as for the health of the parent hive.

Side by side with the spirit of adventure, however, there went everywhere a strong love of order and efficient organization. In this respect our Norman conquerors printed the stamp of their peculiar genius deep on the receptive English



mould. I have referred earlier to the achievement of our Norman kings in establishing a unified and efficient government. Long ages before the rest of Europe, England enjoyed national unity under a supreme Crown, capable of enforcing that respect for "law and order" which has become one of the deepest rooted of British instincts, and is as strong to-day in the youngest settled Dominion as in the Old Country itself. Through all the long struggle for constitutional freedom, the authority of the Crown as the supreme executive was maintained, and the British system of responsible government, however democratic in one sense, has never lost that element of authority, of recognized leadership, whose absence has been the undoing of constitutions modelled on its outward pattern, but ignoring its inner spirit.

That same instinct for organization and hatred of anarchy has played no small part in the extension of the Empire as a system, not of self-government but of administration, wherever Englishmen have been brought into contact with primitive barbarism or with Eastern civilizations which have broken down. Again and again in our Imperial history the desire on the part of Englishmen on the spot to put things straight, to get rid of corruption and oppression, to bring law and order, personal freedom and opportunity to the common man, have counted for at least as much in the extension of British rule as any conscious desire for power or thought of gain. In return the recognition of this quality in British rule has often done far more than mere force of arms to secure its ready acceptance—sometimes, it is true, only till it has achieved its self-appointed task and till the memory of the state of affairs which it replaced has been forgotten.

The story of the building up of the British Empire of India, of the regeneration of Egypt in the closing decades of the last century, or of Iraq and Palestine since the War, is a wonderful tribute to the organizing power of the men, some famous in history but most of them unknown, who did the work. That work is still going on all over the dependent Empire in Africa and elsewhere, and is acquiring all the time a larger scope and a wider meaning. Time was

when we thought our duty as colonial administrators satisfied if we abolished slavery and tribal warfare, established law and order, and left the rest to the missionary or the trader. To-day we have a higher conception of our task. We look upon it as a task of education, of sanitation, of agricultural development, of an endeavour in every direction to make the most, not only of the material resources of the vast undeveloped regions which we control, but of the human resources latent in the native populations for whom we regard ourselves as trustees.

The love of order and effective government innate in the British character has never been an acceptance of arbitrary government. One thing the Norman kings learnt from their stubborn English subjects was that they might govern as strongly and effectively as they wished, so long as they governed in accordance with the law of the land. The "Reign of Law," the characteristically English conception that the government and its servants act not outside but within and under the law, is one which we have carried wherever we have gone. It prevails not only in the self-governing portions of the Empire, but wherever British authority prevails. The humblest peasant in an Indian village, the most primitive tribesman in the West African bush, entrenched behind the law, enjoys, as against the arbitrary power of government officials, a security and a freedom unknown to-day to the greater part of continental Europe.

The further development of the conception underlying the reign of law, namely that the law itself can only be changed by the consent of the nation's representatives, had become deep ingrained in our people long before the tide of migration began to flow. Representative institutions sprang up, as something natural and undeniable, in every colony based on actual settlement. If we lost the American colonies it was not that they were oppressed, but that they enjoyed a measure of freedom without responsibility, which made government impossible in America, as it had made government impossible in England a century and a half before. We resolved that dilemma in time to save a second Empire by the evolution of responsible government at

home, and by our courage in applying its essential principle throughout the Empire wherever the conditions seemed to make it applicable.

We have done so with amazing success thus far. But it is still, in more than one respect, on its trial. We have yet to see whether it can overcome, here and in the Dominions, those defects arising from its perversion into democratic party government from below which have wrecked its imitations in Europe. We have yet to see how it can be made to work among populations of wholly different race: the only thing that can be said with confidence in that connexion is that the one system that cannot work with any kind of population that has become politically conscious is the system of irresponsible elected representation which has been allowed, by a curious survival of eighteenth-century ideas, to grow up in our Crown Colonies, and, in a large measure, in India. We have yet to see how the principle of responsible self-government, carried to its utmost lengths by the Statute of Westminster, can provide the inner unifying force for the whole Empire to counteract its, at first sight, obvious centrifugal tendencies. My own belief is that, rightly understood and rightly applied, that principle can solve these difficulties. In any case, it has become so powerful an instinct, so strong a passion, among all who have inherited, or been influenced by, the British tradition, that no system of government based on any other foundation could possibly secure that predisposition, that capacity to work it, which are essential to success.

Part cause, part outcome, of our peculiar political development has been the spirit of compromise and of toleration. The Civil Wars taught us that only compromise could save us from the alternatives of autocracy or anarchy, and compromise in Church and State was of the very essence of the settlement which followed. Responsible government, based on party support, is, indeed, only possible if the issues dividing parties are not pushed too far. In its turn the working of a free constitution has bred a disposition to give and take, to accept the existence of differences of outlook and policy as natural, to carry out loyally measures once strenuously opposed, when they have found their

place in the Statute Book. These things have only reinforced the natural bent of the English character. Our instinctive suspicion of all systematic schemes and logical conclusions, our preference for avoiding all changes beyond those immediately necessary, our love for incorporating all that can be preserved of old substance or old form in such changes as we have to make, are as characteristic of our houses, our streets, or any other feature of our lives as of our laws and constitution.

That compromising, conservative, adaptable English temper has been of inestimable importance in building up the British Empire. Wherever British rule has extended, it has been by acceptance of and adaptation to local conditions, not by the enforcement of any preconceived plan of government. The British Empire has spread so easily, has been accepted so readily by other peoples, largely because we have always tended to preserve and work existing institutions rather than to displace them, to recognize local sentiment in language, laws, or customs rather than to affront it by imposing our own. It may be that we err sometimes on the side of changing too little, of not facing problems in time, of tinkering at great issues that can only be dealt with by bold reconstruction. Yet on the whole our instinctive policy has justified itself. It is difficult to see how any other policy could have reconciled the evolution of Dominion nationhood with the maintenance of Imperial unity in the last hundred years, or how any other but a tentative step-by-step policy can solve the future place of India, and eventually of Africa, in the British Commonwealth.

Toleration in all that concerns religion, language, or race is, indeed, of the very essence of the British Imperial tradition. The Quebec Act of 1775, which recognized and established the rights both of the Catholic religion and of the French language in Quebec, enshrined that principle at a time when it was fiercely resented by the New England colonists who still kept alive, in religion as in politics, the intolerance of their Puritan ancestors. The United States, indeed, one might say in passing, are in many respects the spiritual successors to the Commonwealth, as the British

Empire of to-day stands in the broader and more tolerant tradition of the Restoration. The Empire is the embodiment of a tradition of political life in which all are free to co-operate and which knows no formula of exclusion. The main bearers of that tradition, as they were its creators, have been the English people. Theirs has been the quickening and guiding spirit. Their language has enshrined that tradition in a great and glorious literature. But they have claimed no monopoly for themselves or for their speech. They have welcomed every fellow-worker, and accepted him on his own terms. Scots and Irish, French-Canadian and Afrikaner, Moslem and Hindu, have carried forward, and, each in his own way, enriched the British tradition as they have contributed to the strength of the British Empire. Not the least of those who can thus claim to have been *auctores Imperii*, to have enlarged the bounds of Empire in the realm of thought as well as on the field of battle, General Smuts, recently based his faith in the permanence of the Empire upon that essential quality of tolerance: "Freedom of conscience and self-expression, these are the keynotes of our Empire, and in standing for them we stand for what is most precious in the world to-day."

There could be no greater mistake than to attribute English tolerance in religion, as in other matters, to indifference. It is essentially a tolerance which springs, not from cynicism, but from charity and comprehension. The Englishman's outlook, indeed, towards life, and in particular towards public affairs, has always been fundamentally a moral and, in a broad sense, a religious one. We have never been a proselytizing nation. We have never deliberately set out to extend our rule in order to convert others, by force or by persuasion, to our own point of view in religion. Missionaries have played a great and noble part in the building up of the Empire. But ours has never been a missionary Empire like the Spanish Empire or the French Empire in Canada. What we have, instinctively rather than consciously, endeavoured to do has been to bring the essential spirit of Christianity, the recognition of the rights and point of view of others, into our dealings with the peoples who have come under our control. Whatever

failings may have accompanied our rule it is, I think, true to say that Britain, both in Parliament and through her administrators, has, on the whole, regarded her government over other peoples as a trust, and striven to live up to the spirit of trusteeship.

I have attempted to analyse some of the characteristics which have created the British Empire and made it what it is. They are characteristics which run through the whole and bind it together in a natural sympathy and understanding. Yet they are everywhere so blended with local characteristics and so assimilated to local conditions as to have become native to the soil in a sense which would have been impossible if they had been merely imposed from without. To these characteristics we must add the memories of a common history in the light of which alone the several individual histories have their full meaning, the sense of a common tradition interwoven with each local tradition, a common patriotism of Empire not excluding but embracing and enlarging the narrower patriotism of nation or community. Taken together these things make of the British Empire a living entity, and not a mere loose bundle of administrations, an entity conscious of itself and of its difference from the world outside, and, because living and conscious, capable of indefinite further development both in structure and inner unity, of indefinite adaptation to the changing conditions of the world and so of continuous rejuvenation.

For those who are privileged to belong to it the British Empire is not merely an adequate field for economic development, or a sound and economical system of mutual security. It is a partnership in memories, in sentiment, in outlook, in ideals. It is, above all, a living personal thing, a mighty soul housed in no mean outward frame. As such it is worth maintaining and defending. It is even more worth developing and improving. If we are justified in believing, with the late Lord Rosebery, that even to-day it is "the greatest secular agency for good known to mankind," we are still more justified in striving to make of it a yet finer thing, not only materially but spiritually, in the future. The service of this our Commonwealth, if it is to be of real

effect, must be more than a mere reasoned conclusion. It must be a personal devotion, a faith, a religion, something that gives unity and direction to our lives, that makes our every action worth while, that sustains us with the joy of dedication to a purpose outside ourselves. Such a deeper outlook upon the duty and range of our citizenship does not imply a displacement or distortion of our Christian faith by some new Imperial paganism modelled on the extravagances of German self-worship. Neither our individual faith nor the bonds of any wider spiritual communion are in question. But it does mean the linking of the inner core of our spiritual life with practical sympathies, duties, and purposes bound together in a definite framework, the task of building our "city of God on earth"; a task at once part of our ordinary everyday lives as citizens, and, at the same time, directed towards ideals whose realization lies far beyond our day and must ultimately transcend all political boundaries.

## CHAPTER II

### THE BRITANNIC COMMONWEALTH

#### I. OF EQUALITY OF STATUS

THE Empire, for us, is both the spiritual embodiment of our traditions and ideals and the indispensable material instrument for their preservation and attainment. To maintain and strengthen its unity is, therefore, the first of all objects of policy. All other ends and means of policy must be judged by the test of their contribution to, or compatibility with, that paramount object. How is that object to be secured? How are we to overcome those centrifugal and disruptive tendencies, due to local interest or racial sentiment, or to the mere absence of co-ordinating machinery, which are ever threatening the whole great fabric with dissolution?

There are many, at home and abroad, who would say that, so far as relations between this country and the Dominions are concerned, dissolution has, to all intents and purposes, already taken place. In their eyes any approach on the part of India towards responsible self-government means the no less certain, and probably violent, severance of the Imperial connexion. For them the only Empire of any reality or value that is left to us is that lesser Empire of direct administrative and military control which the United Kingdom exercises over a great part of tropical Africa and over a variety of colonies scattered over the rest of the globe. I believe that view to be profoundly mistaken. It is based on an overestimate of the effectiveness of legal and even of military control, and on an underestimate, which is contradicted by our whole history, of the power of common interests, common traditions, and common sentiment. That power has successfully carried us thus far, in our relations with the Dominions at any rate. I believe that, properly nourished and strengthened, it can see us through the further evolution of the new Dominion relationship.



I even believe that, in spite of immense inherent difficulties and dangers, a similar, though not identical, course of evolution, duly safeguarded, can retain India as an effective partner in the Imperial system.

The new era in Dominion relations opened with the Imperial Conference of 1926 and with the subsequent legal embodiment of its conclusions in the Statute of Westminster.<sup>1</sup> The War had made an end of the old Imperial system under which the external policy of the whole Empire was directed by the United Kingdom. One thing was made clear by the Dominions which had rallied so whole-heartedly and unconditionally to the common cause in the hour of danger, and that was that they would never again be drawn into war by a British policy in whose formation they had had no voice. Their admission to the League of Nations as equal members, and the recognition of their right to diplomatic representation, only confirmed this insistence upon a recognition of their full nationhood. At the Imperial Conference of 1917, and for some time afterwards, it was contemplated that the issues thus raised should be dealt with by a special Conference summoned to devise a constitutional solution of the problem of reconciling this demand for equal rights and equal status with unity of policy.

<sup>1</sup> The Statute of Westminster was passed in 1931, in pursuance of recommendations of the Imperial Conference of 1926, in order to bring "existing administrative, legislative, and judicial forms" into accord with the established constitutional position as described by that Conference. It lays down explicitly that the Colonial Laws Validity Act of 1865 shall not apply to the Dominions, and that Dominion legislation shall not be regarded as void on the ground of repugnancy to the law of England or to any United Kingdom statute; that Dominion laws can have extra-territorial operation; that no Act of Parliament of the United Kingdom shall extend to a Dominion unless it expressly declares that that Dominion has requested and consented to its enactment; that certain clauses of the Merchant Shipping Act, 1894, and Colonial Courts of Admiralty Act, 1890, shall not apply to the Dominions (reciprocal arrangements have been made to take their place). On the other hand, it excludes the constitutions of the federal Dominions and of New Zealand from alteration except under the conditions prevailing hitherto. Its most interesting provision, perhaps, is the declaration in the Preamble that any alteration in the law touching the succession to the Throne or the Royal Style and Titles should, in order to be in accord with the established constitutional position, require the assent of all the Dominions as well as of the United Kingdom. Of great importance as clarifying the juridical position it has not materially affected constitutional relations, and it is a mistake to speak of it as having created a new "Dominion Status." It should be noted, in any case, that the only Dominions to which it applies are Canada, South Africa, and the Irish Free State.

The 1926 Conference deliberately rejected the attempt to frame a constitutional scheme, and confined itself to the attempt to clarify and define, by common consent, the position which we had reached. If in so doing it gave a new and fruitful direction to the subsequent course of our constitutional development, and thus became a landmark in our Imperial history, that was only in accordance with our tradition. Magna Carta, the Declaration of Rights, and other noteworthy milestones in English history, since recognized as starting-points of great developments, also professed, at the time, to be no more than explicit assertions of recognized rights. The definition of the mutual relationship between the United Kingdom and the Dominions was laid down in the following passage of the report of the Constitutional Relations Committee of the Conference:

"The Committee are of opinion that nothing would be gained by attempting to lay down a Constitution for the British Empire. Its widely scattered parts have very different characteristics, very different histories, and are at very different stages of evolution; while, considered as a whole, it defies classification and bears no real resemblance to any other political organization which now exists or has ever yet been tried.

"There is, however, one most important element in it which, from a strictly constitutional point of view, has now, as regards all vital matters, reached its full development—we refer to the group of self-governing communities composed of Great Britain and the Dominions. Their position and mutual relation may be readily defined. *They are autonomous Communities within the British Empire, equal in status, in no way subordinate one to another in any aspect of their domestic or external affairs, though united by a common allegiance to the Crown, and freely associated as members of the British Commonwealth of Nations.*

"A foreigner endeavouring to understand the true character of the British Empire by the aid of this formula alone would be tempted to think that it was devised rather to make mutual interference impossible than to make mutual co-operation easy.

"Such a criticism, however, completely ignores the historic

situation. The rapid evolution of the Oversea Dominions during the last fifty years has involved many complicated adjustments of old political machinery to changing conditions. The tendency towards equality of status was both right and inevitable. Geographical and other conditions made this impossible of attainment by the way of federation. The only alternative was by the way of autonomy; and along this road it has been steadily sought. Every self-governing member of the Empire is now the master of its destiny. In fact, if not always in form, it is subject to no compulsion whatever.

"But no account, however accurate, of the negative relations in which Great Britain and the Dominions stand to each other can do more than express a portion of the truth. The British Empire is not founded upon negations. It depends essentially, if not formally, on positive ideals. Free institutions are its life-blood. Free co-operation is its instrument. Peace, security, and progress are among its objects. Aspects of all these great themes have been discussed at the present Conference; excellent results have been thereby obtained. And, though every Dominion is now, and must always remain, the sole judge of the nature and extent of its co-operation, no common cause will, in our opinion, be thereby imperilled.

"Equality of status, so far as Britain and the Dominions are concerned, is thus the root principle governing our Inter-Imperial Relations. But the principles of equality and similarity, appropriate to status, do not universally extend to function. Here we require something more than immutable dogmas. For example, to deal with questions of diplomacy and questions of defence, we require also flexible machinery—machinery which can, from time to time, be adapted to the changing circumstances of the world."

The actual drafting of this historic statement was the work of the late Lord Balfour. One sentence in it, indeed, had been the subject of peculiarly careful previous discussion between all the members of the Committee, and was, therefore, underlined in the document as circulated to the Committee and to the Conference, and subsequently printed in italics. But it was never intended to stand alone,

and the apparently negative character of its definition of the Commonwealth relationship should always be read together with the emphasis subsequently laid upon the positive obligations of our equal partnership, obligations no less unanimously accepted by all of us who took part in these deliberations.

It will be noted that in the defining sentence the word Empire is used to describe the British political organism as a whole. No other term, indeed, would be appropriate to the totality of autonomous states, dependencies, colonies, protectorates, mandated territories, feudatories, and allies which are comprehended within the orbit of our polity. Within that wider whole the relationship of certain of its members constitutes a definite political system whose character is appropriately designated by the fine old title of Commonwealth, a word whose use goes back to long before the days when it was peculiarly associated with the Puritan Republic. That is the correct distinction between the two words where accuracy of definition is required. But in ordinary language they are largely interchangeable, according as the emphasis is laid upon the idea of comprehensiveness and unity, or upon the idea of co-operation for the common weal. The word Empire, indeed, both because of its wider scope, and because of the convenience of the use of the adjective Imperial, is the one which naturally holds the field, and is likely to secure more general acceptance, even in quarters where it has hitherto been looked on with disfavour, as old prejudices based on a misunderstanding of the nature of our Imperial system tend to fade away.

The whole question of terminology in our Imperial affairs is not without its difficulties, arising from the very fact that we have evolved from a centralized Empire to a decentralized one. The adjective "British" has to do double duty for that which pertains to the United Kingdom and that which pertains to the Empire as a whole, just as the Union Jack does double duty as our local flag here and as the common flag of Empire. There is a real disadvantage in this in so far as it tends to preserve an unconsciously centralist outlook on Empire affairs in the mind of the

public here, and to foster a corresponding anti-Imperial complex in other parts of the Empire. We may, perhaps, some day accept the distinction suggested by that pioneer of progressive thinking on Empire questions, Sir Richard Jebb, and use "Britannic" for Imperial, reserving "British" for more strictly local purposes, just as we may some day make up our minds to distinguish officially between a United Kingdom flag and a common Imperial flag. Or we may just rub along as we are, avoiding any change that is not actually forced upon us.

The members of the British or Britannic Commonwealth are associated on a footing of complete freedom and equality in a system whose constitutionally indissoluble unity is affirmed by the fact that their association is under a common Crown which is an integral part of the constitution of each one of them. There is no such thing in the British Empire as that personal union of separate Crowns which once linked Hanover to England or Hungary to Austria. The Statute of Westminster, in its preamble, emphasizes the point in declaring that there can be no change in the style and designation of the Sovereign without the general agreement of the whole Commonwealth. Its latest sequel, the South African Status and Nationality Act, recognizes that there can be no difference—as there was in the Hanoverian and Hungarian instances—in the Law of Succession recognized in different parts of the Commonwealth. Consequently, while, in fact, the United Kingdom or any other Dominion might be in a position to throw off the common connexion, or to declare itself a Republic, without armed interference from the rest, such action must be fundamentally unconstitutional.

Constitutionally and legally the British Empire, while in one aspect comprising a variety of governments, many of which work in complete independence and subject to no external authority, is also, in another aspect, one single, indissoluble body corporate composed of the King and his subjects. This latter aspect, naturally less discussed in the constitutional readjustment of recent years, still holds good and colours all the relationships of Empire. As subjects of the King, all inhabitants of the Empire owe loyalty not

only to the King, but, in virtue of their loyalty to him, to each other. All the Parliaments of the Empire are Parliaments in which the same Crown is an integral part, and Members who have sworn the oath of allegiance to that Crown have always to bear in mind not only their immediate obligation towards their own constituents, but the obligation of reconciling the interests of those constituents with the wider interests of all their fellow-subjects under the Crown. His Majesty's Ministers of the different Governments of the Empire are all fellow-servants of the same Crown, and, as such, in a very real sense, colleagues, as is well understood by any of us who have ever taken part in an Imperial Conference. That obligation of mutual support and co-operation which flows from the fact of a common Crown, constitutes, so to speak, the Common Law of the Empire—a Common Law which is enforced, not by any central authority, but by the free action of all the governments and peoples that live under the Crown.

Moreover, the part which the Crown has played in the evolution of our constitutional system at home, the peculiar character which it gives to the working of that system in practice, and the unique position to which our Monarchy has attained, all have their corresponding influence upon the constitutional tradition and outlook of the Empire as a whole. Throughout the development of ordered freedom in England it is significant that the limitations set upon the arbitrary exercise of royal authority have left the legal and constitutional source of executive power undisputed, government is carried on to-day, as always, by His Majesty's Ministers. The King's justice is administered by judges who are appointed by and represent the Crown. The evolution of responsible government led to a certain differentiation in the functions of the Crown. All those day-by-day measures which involve discussion and criticism were assigned to Ministers prepared to shoulder the full responsibility for all their actions. The Monarch himself, standing above all criticism, became the embodiment and symbol of that unity and continuity of the national life which transcends all differences of party and links the nation's present with its past and its future. But the differentiation has never been

a divorce. It is still the Monarch in person who appoints Ministers or accepts their resignation, and it is to him that their responsibility for the conduct of His Majesty's Government is still primarily due. That responsibility, while including the obligation to secure the necessary parliamentary support required for the purpose, remains throughout an obligation to place national above purely party interests. It is a responsibility to the Crown for the conduct of the majority in Parliament as well as a responsibility to the majority to legislate and govern on lines generally acceptable to it.

The same process of differentiation which, in this country, has enabled the Monarch to embody the unity and continuity of the national life, and to become the focus of all those loyalties which transcend the conflicts of the hour, has equally made it natural that he should, for the whole Empire, become the embodiment of a wider patriotism, the object of a loyalty transcending more immediate loyalties. For in each case it has enabled that higher, spiritual function of the Crown to be developed without prejudice to the fullest freedom in the conduct of governments, whether pursuing separate party policies within a nation, or separate national policies within the Empire. Moreover, that function is one which can make its appeal across the medium of every kind of political outlook. Loyalty to the Throne is a common bond, however differently conceived, between the most constitutionally developed and the most primitive of His Majesty's subjects. No other satisfactory common centre and apex, indeed, could well be conceived for so complex and varied a system of governments and communities as ours.

To that loyalty no small contribution has been made by the personal character of our last three sovereigns. Queen Victoria, in the course of the long years of her reign, became not only the visible emblem of the continuity of the Imperial system but the loving mother of all her peoples. For some of them she represented the material wealth and spiritual freedom of a golden age of progress, for others relief from the slave-raider or protection from local tyranny. But all alike felt that her personal interest and good will embraced

them. More than a quarter of a century after her death the writer met the nonagenarian Basuto chief, Jonathan Molopo, at the head of his tribe, and, asking how he was, received the reply: "My body is well, but my heart is still sad for my dear Queen Victoria." King Edward VII increased the popularity of the Throne by his democratic tastes and unaffected geniality as well as by the respect felt, in narrower circles, for the sagacity which, never transgressing constitutional limits, could yet be a powerful influence in domestic and international policy. King George V has set, through anxious and critical years, a standard of devotion to duty and of unwearied interest in public affairs which have won for him that increasing admiration and affection which has found so signal and striking an expression in this present year. Queen Mary has been, for all our peoples, the very embodiment of dignified, gracious and sympathetic queenliness.

Human nature not only craves for symbols but prefers them personal and human. The Monarch's domestic life typifies not only the majesty of the state but also the intimacy of ordinary human events. Births and deaths, marriage and parenthood, sickness and recovery: the interest in these happenings helps to unite the whole of the King's subjects in a common family feeling. This personal and human aspect of Royalty has been enormously enhanced by the discoveries of science. Modern methods of transport have made the Prince of Wales's sunny personality a household recollection in every part of the Empire. Every ceremonial event in which Royalty takes part is reproduced, not only in print, but visibly and audibly for every British subject. On the occasion of the Duke of Kent's wedding, not only the swelling music of the Abbey, but every word of the Archbishop's address, every response of bride and bridegroom, were heard more clearly in the farthest parts of the Empire than by most of those present at the actual service. Not only on great ceremonial occasions, such as those of the recent Jubilee, but on every Christmas Day the King's own words of good will to his peoples, to his wider family, are heard in countless homes all round the world; by the lonely miner in the Canadian Arctic,



the pioneer in the Australian bush, the village headman in India, and the sailor at sea. A distant symbol has become an intimate presence.

Again, that sense of responsibility which is implied in the appointment of Ministers by the Crown includes, in view of the Imperial character of the Crown, not only a responsibility for the preservation of the unity of the national life, but also a responsibility for the maintenance of the whole Imperial heritage. It is to the development of that sense of responsibility in all the Governments of the Commonwealth that we must look, above all, for the success of our great venture in free co-operation. To some it may seem an absurdly slender bond to rely upon. Yet who could have suggested two centuries ago, with the notions of government then prevalent, that you could entrust the control of the Executive to Ministers dependent upon a partisan majority, and expect any cohesion or stability of government? No one would deliberately have embarked on so fantastic an experiment. Is it impossible that a similar experiment, depending for its success upon a sufficient sense of responsibility, not in successive partisan governments in a single country, but in separate national governments co-existing in the same Commonwealth, may prove no less successful? The course of our evolution has now left us without a single bond of administrative authority to hold us together; nothing except the sense of Imperial responsibility in each nation of the Commonwealth. To rely upon that is, indeed, an act of faith. But we have had great acts of faith before, and it is on faith and ideals that the future of the Empire depends.

That this sense of Imperial responsibility is not yet fully or equally developed everywhere in the Commonwealth must be admitted. It can only develop with the exercise of responsibility and in the course of time. Time is required in order to enable the new conception of our mutual relations to be fully understood. The old conception of the British Empire as a planetary system with this country as the central sun, the old suspicion, dating from Colonial days, of Downing Street control and interference, have not yet wholly faded out. We are only gradually beginning to realize, here and in the Dominions, that the Empire is not

an external bond, a super-state limiting our national lives, but, like the Kingdom of Heaven, within us. It is not something to which we submit, that owns us: it is something that we own, an enlargement and exaltation of our own national and individual life. Imperial unity is inherent in our constitutions and not imposed by a federal constitution from without—inherent in a common Crown, a sense of responsibility for the common interest springing from that common focus, and strengthened by innumerable strands of common interest, kindred thought, and mutual sympathy.

So, too, it will take time for the Dominions to appreciate fully that the status to which they have attained is not a mere national but an Imperial status. They have been admitted by Britain to equality with herself, no common, ordinary nation, with a precarious, limited, nominal independence and a narrow, introverted vision, but a great Imperial nation, confident in her strength, unafraid of great responsibilities, with a temper generous as the breadth of her horizon. They can only realize gradually how superior, in status and dignity, as well as in practical convenience, is their position as compared with that of most of the so-called independent nations of the world outside. They enjoy every liberty, every privilege enjoyed by the ordinary run of sovereign states. But they enjoy much more. Within the circle of the Commonwealth they can count on the co-operation, the support, in peace and war, of their partner states, as well as on the privileges of an almost world-wide citizenship for every one of their citizens. There is no nation now outside the Commonwealth whose status, whose dignity, whose power and security would not be enhanced by admission to such a partnership. There is none now within the Commonwealth that would not lose immeasurably in every sense, above all in freedom of action and in spiritual growth, in severance from its association.

It is no less necessary for us in this country to realize that our Imperial status has not been diminished by recent constitutional changes. It is sometimes said, and in one sense correctly, that we are now only one of the Dominions. But we are still the senior Imperial nation, with the most

highly developed sense of a common Imperial responsibility. That responsibility has not been lessened by the admission of equal partners who can help us in the task of fulfilling it more successfully. It is still for us to give leadership to the whole Empire, if that leadership is in us, and if we can win it on our freely recognized merit and not on any obsolete claim to supremacy or even primacy. And we still have immediate responsibilities, in relation to foreign affairs, to defence, to India, to the Colonial Empire, so definitely and predominantly ours that we could not, in respect of them, abdicate leadership if we wished.

For many years students of the problem of Imperial unity, influenced by the example of the United States, of Germany, and of our own Dominions, could only conceive its ultimate solution in the form of some federal scheme, in which foreign policy, defence policy in its wider aspects, including the maintenance of sea power, and the control of the Dependent Empire would remain within the purview of a central government responsible to an all-Commonwealth Parliament and electorate. They pointed out, with apparently irrefutable logic, that this solution alone could reconcile the Dominion demand for equality of status with even the very minimum of effective unity.<sup>1</sup> They were met, here and overseas, by an opposition which only grew stronger with the years, and which, unformulated and instinctive as it was, has, I believe, proved justified, at any rate in the circumstances of our generation.

The federal argument, simple and logical as it may seem, is, after all, based on two premisses, characteristic of nineteenth-century thought, which a study of the preceding chapters will have shown to be by no means so self-evident as they once seemed. One is that ultimate sovereignty must rest upon some definite basis, which in a democratic age can only be an electorate. To this the answer is that there never has been, in this country at least, such a sovereignty of the electorate, but that our affairs have been directed by

<sup>1</sup> The case for effective federal unity and against co-operation, convincing as regards the circumstances of the American colonies, if not in its application to the British Empire, is brilliantly developed in the late Mr. F. S. Oliver's *Life of Alexander Hamilton*.

a continuous tradition of government, modified by electoral influences but essentially based on a high sense of responsibility. The other is that the functions of government can be clearly divided between those wider functions which concern the external life of the state, and are, therefore, naturally assigned to the federal power, and the narrower, more domestic functions which can be left to the subordinate units. The whole course of political and economic evolution has tended to obliterate that division. Foreign policy, defence, monetary and tariff policy, social legislation increasingly tend to become an indissoluble complex of policy which cannot easily be left to separate authorities divided according to some rough-and-ready definition.

In existing federations that tendency is manifesting itself almost everywhere in the direction of an increasing unification, facilitated by geographical and economic conditions and by the growth of a common national sentiment. In the British Empire such limited powers as could ever have been conferred upon the Federal Government would probably have proved intolerable to the "totalitarian" instinct of the several national governments, and have led to a break up of the federation with disastrous consequences for Imperial unity. On the other hand, even if they could have been maintained, they would have proved too narrow in a world in which it is difficult to conceive of a foreign policy divorced from tariff policy or aviation policy. The system of co-operation has at any rate this advantage, that it is not limited to any particular field of activity but covers all, that the sense of Imperial interest and responsibility can permeate every department of the national life, and that education, or health, or the promotion of scientific research are as much matters for Imperial conference and consultation as defence or diplomacy.

Our main contribution, then, towards the maintenance and strengthening of Imperial unity in the immediate future must lie in so shaping our policy in every field as to make it contributory to the welfare of our partners in the Empire and consonant with their sentiments and ideals. Our foreign policy must be conceived from an Imperial and not from a European angle, and must clearly show that Imperial

security is its chief preoccupation. Our defence policy, on sea, on land, and in the air, must be no less clearly Imperial in its strategical outlook and developed on lines that will facilitate and encourage Imperial co-operation. More important than all, at any rate more immediately urgent, is it to show in our monetary and investment policy, as in our tariff policy, that the development of the resources of the Empire and the building up of an Imperial economic system are our dominating objectives, and that trade or currency agreements with foreign countries will only be encouraged in so far as they are clearly not inconsistent with our main purpose. We may not always and everywhere meet with a whole-hearted response. We should not be deterred, or forget how long we gave the bad example, in economic matters at any rate, of an insular outlook, or how long it was before we responded to the policy of Imperial Preference inaugurated by the Dominions. The time has come for us to give the lead, and we must do it generously and whole-heartedly if we expect to be followed.

## II. OF PRACTICAL CO-OPERATION

If the main contribution to Imperial unity must come from the active sense of responsibility of the governments and peoples of the Commonwealth, it still remains of great importance that the machinery for mutual contact and consultation should be as effective as possible. Of that machinery the most important and significant element is the Imperial Conference. Begun in 1887 as little more than an incident in the celebration of Queen Victoria's Jubilee, the system of Conferences developed and took shape, more particularly under Mr. Joseph Chamberlain, who limited the invitations to the self-governing states of the Empire, and in the course of the Conferences of 1907 and 1911, by which time the Imperial Conference, as it was now called, had acquired a settled constitution as a quasi-permanent body meeting quadrennially.

The Great War witnessed a striking and potentially fruitful development of the Conference idea, when in 1917 and 1918 the meetings of the Imperial Conference were

paralleled by meetings of substantially the same Dominion Ministers with the British War Cabinet in what was known as the Imperial War Cabinet.<sup>1</sup> This involved no change in constitutional principle. The difference between the two bodies lay rather in their functions, the Imperial War Cabinet concerning itself with the immediate conduct of the War, and the Conference with more general and secondary problems of inter-Imperial relations. But the title Imperial Cabinet was truly appropriate to the spirit of those meetings which were animated by a single-minded concern for victory, and at which the constitutional independence of the several governments represented created no obstacle to the framing of a single Empire policy on all vital issues. It was in truth, as Sir R. Borden, the Prime Minister of Canada, afterwards described it, a "Cabinet of Cabinets." So useful and, indeed, essential did the Imperial Cabinet system seem to those who took part in it during many critical months, that they contemplated that its meetings should be held annually.

The high Imperial sentiment of the War years was followed, perhaps inevitably, by reaction. The title Imperial Cabinet was dropped as too suggestive of the idea of a centralized system of government. Even the pre-War formal constitution of the Imperial Conference largely lapsed, and the Conferences tended to become regarded more as *ad hoc* reunions whose constitution and functions were left to be decided on each occasion. Domestic problems were everywhere too urgent to allow Prime Ministers to be absent every year for several months at a time. The British failure to implement the very modest fiscal conclusions of the Economic Conference of 1923 discouraged the idea that any practical results could come out of an Imperial Conference. On the other hand, up to 1926, national opinion in more than one Dominion looked askance at the very suggestion of co-operation in any field, outside the economic, until the issue of Dominion status was clarified. The better

<sup>1</sup> An incidental, but most important modification in the constitution of the Conference in 1917 was the representation of India both at the Conference and at the Imperial War Cabinet, which led automatically to her subsequent separate representation at the League of Nations.

atmosphere created by the memorable Conference of 1926 was clouded over by the inconclusive Conference of 1930. Even the Ottawa Conference of 1932, immensely important as having at last given substantial reality to the policy of mutual preference, was too hurried and left its participants too exhausted to make any attempt to deal with the vital problem of improving the machinery of economic consultation between Conferences.

Meanwhile these same governments that were so reluctant to develop the Imperial Conference machinery committed themselves without hesitation to membership of a much more formal and, nominally at least, binding organization at Geneva. The League of Nations was a standing conference which met annually for the whole of the members and quarterly for the leading ones. It involved an expensive secretariat, divided into a number of specialist organizations. For this and for its permanent offices substantial subscriptions were allocated to every member state. It even involved, if the Covenant was to be literally interpreted, a solemn undertaking to interfere in other nations' wars all over the world at the bidding of the League Council, on which they might not even be represented. Nobody made any bones about all this on the score either of risk or expense or of interference with their rights of self-government. Dominions which declared it impossible to contemplate meetings of the Imperial Conference more than once in three or four years, on the ground that no Prime Minister could entrust a colleague with the responsibility of even discussing serious proposals, found no difficulty in sending a representative to Geneva annually, or even quarterly when required by membership of the Council.

What was responsible for this curious difference of attitude? In the first place Geneva appealed almost irresistibly to the wave of idealist sentiment which swept through all countries, and particularly British countries, immediately after the War. No government here or in the Dominions could have ventured, in face of its public opinion, to reject the League on the strength of the constitutional objections that prevailed in the United States, still less on the grounds of expense. Secondly, the League appealed no less power-

fully to the Dominion desire for the international recognition of their equal status with Great Britain, and this could be done at Geneva without the administrative and political commitments involved in setting up a complete series of legations in every foreign capital. Thirdly, to speak quite frankly, nobody in their heart of hearts took the League obligations too seriously. An Imperial Conference was a business gathering whose resolutions might lead to definite commitments, and any improvement in whose machinery might give a definite direction to the constitutional evolution of the whole Commonwealth—a matter, therefore, to be approached with circumspection and not to be lightly entrusted to subordinate Ministers. Geneva was, after all, more in the nature of a ceremonial of international good will where any reputable delegate could maintain both the status and the virtuous outlook of a Dominion by his presence and by the utterance of the appropriate platitudes.

Last, but not least, the League met on neutral ground, and the independence of its secretariat has never been questioned. The underlying objection to all improvement in the machinery of the Imperial Conference has always been the fear, on the part of the Dominions, that such improvement would merely tend to commit the Dominions increasingly to British policies, and that a Conference secretariat would be virtually a section of the British Civil Service. This survival of the old anti-Downing Street complex in the Dominions has been matched by an equal, if unconscious, reluctance, also surviving from an older tradition, on the part of British Governments and Civil Servants, to resign the last vestiges of their authority in the management of Conference arrangements. Above all, the British Treasury, which unhesitatingly pays its quota to the League without further questioning, has always shown, in connexion with such inter-Imperial organizations as the War Graves Commission and the Empire Marketing Board, an almost passionate opposition to the idea of surrendering its detailed control of any expenditure to which it contributes.

Nothing, indeed, could be more typical of the difficulties still inherent in the creation of an inter-Imperial economic organization than the history of the Imperial Economic



Committee and of its more important offshoot, the Empire Marketing Board. The Imperial Economic Committee was set up, as a purely advisory body to conduct certain specific investigations entrusted to it, as the outcome of the Economic Conference of 1923. In dealing with the general problem of marketing Empire produce in this country, and with particular reference to a promised grant for Empire Marketing from the British Government, it suggested in 1925 the formation of a marketing authority whose duty it should be to promote publicity and research in connexion with Empire produce as well as more definite marketing schemes. The promise in question was one, announced by Mr. Baldwin in December 1924, to allot £1,000,000 a year to Empire marketing in this country in lieu of certain preferences of about that value promised to the Dominions in 1923. The administration of this fund was entrusted to the Secretary of State for Dominion Affairs as Chairman of an Empire Marketing Board on which various other Ministers, Dominion and Colonial representatives (mostly identical with the Dominion and Colonial representatives on the Imperial Economic Committee), as well as individual specialists on publicity and other subjects were represented in an advisory capacity.

Conceived as a makeshift way of honouring a pledge which could not conveniently be fulfilled in its original form, the Empire Marketing Board was destined in the seven short years of its life to prove the most fruitful and original mechanism for the stimulation of Imperial economic development and co-operation that had yet been devised. It developed, on very original lines, the whole conception of publicity for the idea of "buying Empire," and so paved the way most effectively for the policy afterwards officially adopted at Ottawa. More important still, it gave an immense stimulus to research of all kinds in connexion with the production, carriage, storage, and marketing of Empire products, both by generous grants to existing institutions and the creation of new institutions, and by promoting personal intercourse between research workers in all parts of the Empire. Of no less immediate and practical value was its work in connexion with statistical and other economic

investigations and market intelligence as well as in the actual promotion of individual marketing schemes. Any adequate account of all its varied activities would fill a volume. For my present purpose it is sufficient to say that the Empire Marketing Board gave a new life and colour to the whole conception of Empire economic unity, and to pay my tribute of gratitude and admiration to Sir Stephen Tallents, its ever resourceful secretary, and to the band of enthusiastic colleagues and fellow-workers whom we got together.

At the Ottawa Conference the British Government made it clear to the Dominions that, having now established the preferences which it had not found possible to grant in 1924, its pledge lapsed, and that it would only continue to contribute to the Empire Marketing Fund as part of a general scheme based on contributions all round. This was not a very generous or even honest attitude to take up, for less than half the amount promised had actually been expended, and on any literal interpretation of Mr. Baldwin's undertaking there was still between £3,000,000 and £4,000,000 due to the Dominions, enough to carry on for another six or seven years at the existing rate of expenditure. Moreover, of the money spent, the greater part had actually been spent on Colonial, as apart from Dominion objects, or on promoting British agriculture at home, an allocation which the Dominion representatives on the Board, only anxious to see good work done where it was most required, had always cheerfully accepted. The Empire Marketing Board, indeed, fulfilled an urgently required need at home and in that Colonial Empire for which we are directly responsible, and should have been kept up for those purposes, at least, even if it had been found impossible to continue to finance it for Dominion purposes without Dominion contributions.

As a matter of fact, there would have been no insuperable difficulty in securing Dominion support if the question had been approached with any sort of tact or common sense. All that the British Government had to do was to continue its support for the general and the specifically British and Colonial sides of the work, and to express its willingness to help the specific interests of any Dominion

in so far as that Dominion was willing to contribute to the organization. Further, in order to give the Empire Marketing Board a constitution corresponding to its desired future basis, it should have been constituted an independent body under Royal Charter, free from all British departmental interference. On such a footing more than one Dominion would have made a small contribution at once, and the others would probably have come in as they realized the benefits of the scheme. As it was, the question was simply thrown at the heads of a Committee of Civil Servants as part of the task of working out a general scheme of economic consultation and co-operation. The result of their deliberations was a timid little project for a fund of £24,000 a year, to be jointly contributed by the whole Empire, to cover the existing cost of the Imperial Economic Committee and of some of the market intelligence work carried on by the Empire Marketing Board, of the Imperial Shipping Committee, and of the headquarters of the existing Imperial Agricultural Bureaux. Holding itself excused, by this apparent evidence of a general reluctance to support any scheme on a large scale, the British Government accordingly wiped out the Empire Marketing Board.

One lesson to be drawn from this unfortunate decision—to be reversed some day I hope—is that there will be little progress in Imperial Co-operation if we are to wait for comprehensive, universally accepted, quasi-federal schemes with definitely allotted contributions and obligations, before we make a start. Co-operation with each Dominion will vary in kind and degree, according to its conditions and idiosyncrasies; one being more concerned with defence, another with communications, another with trade. Schemes for common action should be based, not on such minimum of advance in co-operation as may be immediately acceptable to all the members of the Commonwealth, but on the greatest measure of co-operation which can secure the support of a sufficient number for the purpose in view, and provide for the adhesion of others as their circumstances or political outlook permit.

There would have been no practical outcome of the Ottawa Conference if the attempt had been made to devise

a single comprehensive scheme of preference for the whole Empire, instead of a series of bilateral agreements. Even the present United Kingdom practice of giving the same preference on the same articles to all parts of the Empire (excepting for the time being the Irish Free State) may well have to be modified in order to secure greater progress—and prove its advantages—in connexion with some particular Dominion that is prepared to go ahead of the rest. Canada may join again, as she was prepared to do in 1909, in a combined naval programme for the Pacific. She is not in the least likely, in any near future, to contribute to the defences of Singapore. The advance in Imperial organization will be, not by fixed stages and along the whole front, but by a flexible and irregular process of growth arising from the application of the desire and instinct for co-operation to ever varying conditions. Regularization of co-operation on a definite plan, where found advantageous, will generally follow rather than precede the actual practice of working together.

Keeping this consideration as to procedure in mind we are, I believe, justified in thinking that the time is ripe for a reconsideration of the unduly hesitating and suspicious attitude towards the machinery of Imperial co-operation which has characterized the immediate post-War period. The experience of Geneva has shown that neither a formal constitution nor fixed regular meetings of what is, in essence, a permanent Conference involve any impairment of autonomy, and that a joint secretariat can be highly efficient without ever attempting to interfere in policy. The conclusions of the 1926 Imperial Conference and of the Statute of Westminster have by now had time to sink in, and eliminate old fears on the one side and old unconscious arrogance on the other. Again, in any case, the experience of the problems arising out of the beginnings of effective co-operation at Ottawa, point irresistibly to the conclusion that co-operation requires a machinery for continuous consultation and exploration over the whole field such as cannot be provided by conferences held at long intervals, and by casual correspondence in between.

Allowing for the fact that a full-dress Imperial Conference

attended by Prime Ministers can normally only be held at intervals of three or four years, there is really no reason why some sort of lesser Imperial Conference for the transaction of ordinary business should not be held every year. The meetings might very well take place immediately after the session of the League Assembly in the autumn, and be attended by the same representatives. The development of aviation has made it far easier, even for important Ministers, to attend without undue sacrifice of departmental duties. On the other hand, the development of wireless telephony has made it possible for a Prime Minister to keep in daily and intimate touch with a colleague at the other end of the world. Thus while the practical need for frequent and regular meetings of the Imperial Conference is becoming increasingly urgent, the old obstacles, physical and psychological, have enormously diminished.

Even annual meetings, however, cannot get over the difficulties which arise from the absence of a secretarial organization belonging to the Imperial Conference as a whole, and at the disposal of all its members. So long as conference arrangements are still supposed to be the business of the United Kingdom Government, an atmosphere of constraint and hesitation is bound to surround all the proceedings. There may be nominal equality of status, but there is always a certain feeling on the part of the Dominions that they are being managed, with a consequent timidity on the British side about any action that might lend justification to that feeling. This does not make for businesslike procedure either in preparing agenda or in seeing that resolutions adopted are, in fact, followed up. It is on the economic side, in particular, that the need for a clearing house for information, for preparation of materials, for preliminary discussions, and subsequent working out of details, and of a staff at all times available for these purposes, is most obvious. Without such a nucleus existing organizations like the Imperial Economic Committee, or the Imperial Shipping Committee, are to a large extent in the air.

Considerations of practical convenience naturally indicate this country as the appropriate centre for any permanent Conference Secretariat. But it is impossible to ignore the

psychological objections to placing a body which should be equally at the disposal of all the partners in the Commonwealth in immediate and continuous contact with the administrative machinery of the most powerful and experienced partner. There would have been no agreement upon any permanent League of Nations Secretariat if it had been suggested that it should be established next door to the Quai d'Orsay. A similar problem was solved during the War when the inter-allied joint military expert staff was established, not in Paris but at Versailles. It is at any rate worth considering, when the need for the creation of an Imperial Conference Secretariat becomes sufficiently recognized, whether its inception would not be facilitated and its usefulness enhanced by making its headquarters outside London. If so, then no more appropriate centre could be suggested, in view of the Imperial character of the Crown, than within the precincts of a Royal residence such as Windsor or Hampton Court.

While some such central nucleus is, to my mind, essential as the next step forward in the organization of co-operation, progress in the near future is likely to pursue empirical lines. Mutual contact will be increasingly developed through the High Commissioners at both ends as the several governments realize the practical advantages of extending the scope and authority of men whom they can both trust and now effectively control. This method of contact, now adopted by the United Kingdom Government in Canada and South Africa, will no doubt be further extended, and also in time utilized for inter-Dominion communications. Standing Committees and research organizations of all kinds will be formed as the practical need for them is felt, and will be joined, in the first instance, by those most conscious of the need. The practice of holding official and unofficial Empire conferences on every kind of subject, scientific, technical, commercial, will spread. Such conferences of specialists are generally much more Imperial in their outlook, inspired as they are by the greatness of the field which the Empire offers for the development of their subject, than conferences of governments, naturally jealous of their individual interests. There is scope, as I have already sug-

gested in connexion with the Empire Marketing Board, for independent bodies under Royal Charter, enjoying both government and private support. A striking example of the success of such an independent inter-Imperial institution is the War Graves Commission. Another, with a history going back to the Ottawa Conference of 1895, is the Imperial and International Wireless and Cable Organization which was created in 1928 upon the foundation of the old Pacific Cable Board. Some day, perhaps, inter-Empire Aviation and even Shipping may be co-ordinated on somewhat similar lines.

It has frequently been suggested that the constitution of the Imperial Conference itself should be altered by including representatives of all parties from each Parliament of the Empire. Such a change, it is argued, would give greater authority to the conclusions of a conference, and insure continuity in their execution. But it has never been favoured by Dominion Governments. Nor is it really appropriate to the meetings of a body which is primarily a meeting of governments concerned with matters of executive policy. A possible way of meeting the need underlying the suggestion would be, not to alter the constitution of the Conference itself, but to encourage the meeting, outside the Conference, of all-party delegations from each of the Parliaments. Such an assemblage, while possessing no legislative authority, might serve the Conference as a means of testing parliamentary opinion on issues involving legislation or finance, before coming to conclusions, and of insuring more responsible parliamentary support afterwards. The great success of the Empire Parliamentary Association in the last twenty-five years in bringing members of the Parliaments of the Empire into personal contact, and in encouraging informal discussions between them, encourages the hope that such a meeting of regularly constituted parliamentary delegations, coinciding with the major meetings of the Imperial Conference, would be a useful development of the whole conception of independent co-operation through intimate contact and not through constitutional unification.

I have said nothing in this brief survey of the problem

of the Commonwealth of particular issues that may arise, and require specific treatment outside the general principles that govern inter-Imperial relations. We have recently seen a small Dominion, Newfoundland, get into such financial difficulties as voluntarily to abdicate Dominion status, and ask to be temporarily administered by this country. The root of Newfoundland's difficulties has been that neither her population, nor her resources, as so far developed, have really been adequate to sustain the responsibilities and dangers of an independent political and economic existence. It is doubtful whether even after an interval for reorganization she can really stand alone, and her natural destiny would seem to be incorporation in the Dominion of Canada. If local feeling precludes that solution the alternative would seem to be inclusion, on Ulster lines, in the framework of the United Kingdom.

A far more serious problem, a veritable Achilles's heel of the Empire, is presented by Ireland. There past history, and the peculiarly intractable Irish temperament, have created within the British Isles themselves, and in a measure in the bosom of every nation of the Empire, a tradition of enmity to the very existence of the Empire. That tradition might have died out under the Union—the natural geographic and economic basis for a unit of the Commonwealth—but for a variety of social and economic factors, not least the disastrous effects of Free Trade. Rekindled by the Land League in the years of agricultural depression after 1876, it was stimulated by the incapacity of our party system to handle it except on lines which deepened the rift both within the United Kingdom and within Ireland itself. The present solution, begotten in the sheer lack of national will power which followed the War, and in surrender to revolutionary violence rather than in generous concession to the idea of Irish nationality, is intrinsically an unsatisfactory one.

The hopes of a rational outcome of an essentially anomalous situation which were encouraged by the practical good sense of men like Mr. Cosgrave and the late Mr. Kevin O'Higgins—the most attractive character Nationalist Ireland has produced in our day—have been grievously



discouraged by the querulous pedantry of Mr. de Valera. It may be that, for the moment, the only practical course, short of a formal and, perhaps, irrevocable expulsion from the Commonwealth, is to leave the Irish Free State to stew in its own juice, and to keep it side-tracked from the economic and political intercourse of the Britannic family, until such time as it is once more ready to recognize that its interest lies in co-operation.

The tragedy of the situation, however, is not in any material loss that Ireland may suffer by the policy of defiant, self-contained isolationism on the part of the Free State portion of it. It lies in the fact that the passionate sentiment for which Irishmen are making these sacrifices is a sentiment which can only be satisfied in a united Ireland, and that every step that Mr. de Valera and his supporters have taken to vindicate a theoretical position has, in practice, deepened the terrible rift between the Free State and the North. It lies, no less, in the fact that Ireland differs from the other Dominions in being, like ourselves, a Mother Country of the Empire. Of her, even more than of England or of Scotland, is it true to say that the better half of her lies outside her, and that her own national life can never keep young and sweet except in contact with the wider life which has sprung from her loins. If only the Irish imagination could escape from its self-incarceration in the prison cell of the past, and adventure upon the boundless possibilities of Ireland's future as an Imperial nation; if the Irish Free State had the daring to lay itself out to compete with England for the initiative in an Empire policy—for leadership in a Commonwealth which is a Greater Ireland as well as a Great Britain—then, perhaps, even the dream of a United Ireland might, in fullness of time, come true. If not, the Irish problem will no doubt remain with us, but in an ever diminishing scale of importance; the advance of Imperial unity will leave a faded and shrivelled Erin keening her unintelligible grievance to the Atlantic waves.

Underlying all other problems affecting the Dominions themselves—Ireland apart—and their inter-Imperial relations is the problem of population. The British Commonwealth is the product of migration and settlement, and

it is only by more migration and closer settlement that it can fulfil its destiny or even maintain itself. The British Dominions to-day are the most thinly peopled and, for their resources, undeveloped regions of the world's surface. Canada, with an area of 3,600,000 square miles, has a population of at most 10,000,000, or less than three to the square mile. The United States next door, with a smaller total territory, though possibly twice the area susceptible of intensive development, has a population of over 120,000,000. Australia has less than 7,000,000 people on 3,000,000 square miles, or little more than two to the square mile. Confronting her across the ever narrowing ocean are the greatest aggregations of population in the world: Japan, with 70,000,000 on an area less than half that of the state of South Australia; China proper with possibly 400,000,000; Java with 40,000,000, and India with 350,000,000. South Africa has some 1,750,000 whites and 6,500,000 natives on 1,200,000 square miles, including Southern Rhodesia and the protectorates. New Zealand, the most densely populated, has only 1,500,000, or 15 to the square mile, on a territory of 104,000 square miles, twice as large as England.

To understand how such a situation can have grown up it is necessary to remember that Great Britain, on the one hand, as undisputed mistress of the seas, protected the territorial expansion of her oversea settlements, almost in her stride, as it were. On the other hand, wedded to the policy of promiscuous world trade and investment, and equally promiscuous emigration, she made no attempt, throughout the great era of oversea expansion which characterized the second half of the nineteenth century, to concentrate any effort upon the development of her own Empire. Almost the whole of the thousands of millions of capital which financed the development of the United States came from this country. We were the main purchasers of the hundreds of millions a year of American exports which that capital made possible. We supplied some 10,000,000 of our best blood, now represented by three or four times that number, to building up the population of the United States. Even if other European nations

subsequently contributed no less a volume of migration, that contribution itself was only made possible on the foundation which we had laid, and would, under a different policy, have largely flowed to the Dominions. It is difficult to realize that but for the obsession of Free Trade the Dominions might to-day, in the aggregate if not individually, have greatly exceeded the United States both in wealth and population.

This shortage of population in the Dominions constitutes the most serious obstacle to the immediate full development of their own resources alike from the point of view of their domestic prosperity, as from that of mutual Empire trade. But it is also responsible for an underlying difficulty affecting the whole problem of Empire co-operation which arises from the fact that there is still so wide a discrepancy between the admitted equality of status asserted by the Dominions and the actual stature to which they have attained. Co-operation on a footing of equality will be much easier when there is something nearer equality in the effective contribution which each partner can make, whether in the grant of access to its markets, or in the building up of its defensive services, or in its financial contribution to any agreed common object. So long as the combined population of the Dominions is still inferior to that of the United Kingdom, so long as they depend more upon us than we upon them for their livelihood or for their security, so long we shall still be in transition from the old relationship of Mother Country to dependencies to the new relationship of equal partners.

The building up of the population of the Dominions is, therefore, an essential condition of the establishment of a satisfactory material and psychological basis for Empire co-operation. Our share in that task must consist, first of all, in supplying the finance and the market without which rapid development is impossible. "Men, Money, and Markets" form an inseparable trilogy in economic development. It is an issue, not merely of immediate economic advantage, but of ultimate Imperial strength and unity, that we should, at all costs, rapidly transfer the creative power of our market from foreign to Empire purchases,

and that we should drastically discourage the investment of British capital in foreign countries, as long as there are opportunities for its use within the Empire.

But men are no less essential than money or markets, and an effective policy of mutual co-operation in strengthening the man-power of the Dominions is an essential part of any policy of Empire co-operation. But it must be based on the conception of building up the Empire, and not on that of relieving domestic unemployment in Great Britain. The justification of migration must lie, not in the failure of the migrant in his own country, but in his fitness to succeed overseas. The real cure of unemployment, here and overseas, lies not in shovelling out the unemployed in the one case, nor in restricting their entry in the other, but in such a development of Dominion resources by migration as will strengthen their own home market for themselves, as well as the mutual market which their prosperity and ours affords for all of us.

To recount the history of the migration policy of this country over the last century would be to enlarge unduly the scope of this chapter. Sufficient to say that the conscious Empire-building policy of the military settlements after the Napoleonic Wars and of the subsequent era of systematic group colonization in Australia and New Zealand, of which Gibbon Wakefield was the pioneer, was abandoned in the general enthusiasm for *laissez-faire*. From 1860 to the Great War this country to all intents and purposes washed its hands of all interest in, or responsibility for, those who left its shores. In spite of this, the economic development of the Dominions, and, in part, their own active canvassing and even subsidizing of immigration, led to a considerable movement which gathered increasing strength in the opening years of the century. The movement reached its peak in the four years 1910-13, with an average annual flow of over 300,000 a year to other parts of the Empire.

During the War migration inevitably came to a standstill. To make good that check, as well as on general grounds of Empire policy, the British Government once again took a definite interest in Empire migration. Free passages to

Empire destinations were given to over 80,000 approved ex-service men and their families. The Oversea Settlement Office, subsuming a small bureau for information to emigrants, was created under the present writer's chairmanship, and the Empire Settlement Act passed in 1922 under which £3,000,000 a year was made available for assistance to Empire migration and settlement. A condition of this assistance was that it should be matched by assistance of an equal amount from the Dominion which received the migrants. Though, perhaps, too uniformly and rigidly enforced, this condition was justified by the necessity of emphasizing the fact that the Dominion was at least as interested in receiving the migrants as this country in encouraging their migration. In the ten years 1922 to 1931 over 400,000 persons were assisted to settle in various parts of the Empire under the Act, at a total cost of some £6,000,000 to the United Kingdom Government. The total migration, assisted and unassisted, to Empire destinations in the thirteen years 1919 to 1931 inclusive was about 2,250,000, or at the rate of over 170,000 a year. It will be noted that the assisted migration amounted to not much more than a fifth of the total.

The Empire Settlement Act fell far short of fulfilling the high hopes with which I introduced it. But that was not due to any fundamental defect in the Act itself. The machine was adequate to its purpose, but the economic motive power was lacking. The development of the Dominions was seriously retarded after the War by the burden of their indebtedness. Costly schemes of land settlement for their own ex-soldiers absorbed much of their energy and finance. Above all, the essential factor of a market for an enlarged Empire production was not made available. If the policy of the Ottawa Conference could have been carried through in 1922, as an essential concomitant of a policy of state-aided Empire migration, there would have been a very different story to tell. As it was, the relatively slow recovery of the Dominions from the War had not progressed very far before the world depression threw them right back, and made it difficult for them even to sustain their existing population. For the four years 1931-34 there was an actual

excess of returning migrants of over 80,000. Happily this reverse flow has now stopped.

For all that the Empire Settlement Act made a substantial contribution to Empire development in those years, and the experience of the Oversea Settlement Office in dealing with migration and settlement schemes of every possible variety of type should be of the greatest value for the future. What that experience has shown is that, in the main, the more indirect and less obvious the assistance to the migrant the more likely is he to succeed. The danger of all schemes directly organized by state aid, especially schemes of land settlement, is that the settler tends to look to the state and not to his own efforts and expects to be helped through all difficulties, while those who organize and supervise the schemes have never the same direct financial inducement to conduct them on business lines. The most effective way of helping Empire migration lies in strengthening Empire preference in trade and finance. The next most effective lies in reducing the cost of migration to the would-be migrant who is anxious to go on his own. Of all the schemes carried out in recent years none worked more smoothly than the scheme in force from 1929 to 1931 by which any *bona fide* migrant could buy a ticket to Canada for £10, the necessary state subvention being made, not to the migrant, but to the steamship company.

The recent Report of the Inter-Departmental Committee on Migration Policy (Cmd. 4689, 1934) advocates the extension of this principle to cover an inclusive ocean and land rate of £10, £12, and £14 to Eastern, Central, and Western Canada respectively, and of £17 10s. to any destination in Australia and New Zealand. My own dream has always been a £10 ticket covering land and ocean passage between any two parts of the Empire, and available for migrants revisiting this country as well as for those going out for the first time. Of schemes involving direct assistance to the migrant by far the most successful has been that under which assisted passages have been granted to persons or families nominated by relatives or friends in the Dominions, the nominator being responsible, for a stated period, for obtaining satisfactory employment and

suitable accommodation for the nominee. Nearly one-half of the total assisted migration between 1922 and 1931 came under this method.

The more elaborate schemes for organizing actual settlement on the land, especially group settlement, have met with far less success, in spite of the relatively large expenditure devoted to them. This does not mean that they are intrinsically undesirable, but that they are less suited for direct government administration. There is, no doubt, a large scope for organized settlement by business corporations, as well as by public-spirited voluntary organizations, on somewhat different lines to those adopted hitherto, and the case for state contribution to schemes of this character is, perhaps, somewhat stronger than is conceded in the Report of the Inter-Departmental Committee. But, in the main, it is difficult for anyone who has had practical contact with the difficulties of Empire Settlement to dissent from the general conclusion of the Committee that the provision by the United Kingdom Government of capital for land settlement to migrants is a policy only to be pursued subject to very careful safeguards and under specially favourable circumstances. The whole Report, indeed, which contains a great deal that is positive and constructive, as, for instance, with regard to the greater encouragement to be given to voluntary societies and to child migration, while possibly over cautious, and inevitably influenced by the adverse conditions of recent years, remains a most valuable summary of our experience since the War. It should certainly furnish the main outlines for a more active policy of Empire migration once the essential economic conditions can be restored.

It is to British migration that our attention needs directing in the first place. From the point of view of the Dominions it is vital that their national tradition and outlook, in politics and in way of life, should not be swamped by an excessive influx of alien elements. The British element is still so essentially akin, in sentiment and outlook, as to be easily assimilated and best calculated to strengthen the national character, while the fact that it already shares a common underlying loyalty to the ideal of Empire, and

retains a natural affection for the country of its origin is, at the least, no disadvantage. From the point of view of this country the advantage of British migration lies far less in the reduction of a congestion of population, which is only a temporary reflection of economic maladjustment, as in its moral effects. England would cease to be England, in any true sense, if we became a nation of stay-at-homes, if the adventurous, swarming instinct once died out in us, if we became a land of narrowly restricted birth-rate and narrowly restricted outlook. The impulse of expansion in every home, the sense of contact with a wider world, is an essential condition of the health of a nation which can only live as an Imperial nation.

Emphasis on the Imperial significance of British migration to the Dominions does not mean the rejection of other migration. On the contrary, the need for expansion in the Dominions should soon be such, given a general policy of concentration on Empire development, as to require as much additional immigration from outside as can be admitted without prejudice to the national character and tradition of each Dominion. The example of the United States shows the danger of indiscriminate immigration, and the Dominions will be wise if they exercise a certain measure of frankly selective control. We need not be advocates of any fantastic "Nordic" or "Aryan" theory, if we believe that, on the whole, northern Europeans, and especially Scandinavians, make the best and most easily assimilated outside additions to a British community, and that their immigration should be encouraged in a higher proportion than that of other European peoples.

The admission of Asiatic or African immigrants as a permanent element in the community is another matter. Where political, social, religious, moral and economic traditions and standard of living differ fundamentally and are further emphasized by the obvious external difference of colour, every kind of difficult problem arises. For a homogeneous community to wish to avoid these problems is only natural. In the heyday of individualism Australians were regarded as foolish reactionaries for wishing to preserve the racial purity of their island continent. But a more



instructed outlook will applaud the instinctive wisdom which was prepared to sacrifice immediate economic advantage to ultimate strength. As affecting inter-Imperial migration this issue at one time threatened friction between the Dominions on the one side and the British Government, acting on behalf of India, on the other. Since the War it has been formally acknowledged (at the Imperial Conference of 1921) that the racial composition of each community in the Empire is a matter entirely for its own government to decide. On the other hand, with the fear of racial intermixture once removed, there has been a welcome tendency to get rid of vexatious and humiliating restrictions upon the entry of coloured British subjects into the Dominions as travellers, students, and temporary residents. The advance of our non-European fellow-citizens, in India and elsewhere, towards full partnership in the Empire will be helped and not hindered by the frank recognition that equality of rights and mutual respect need not imply racial confusion.

## CHAPTER III

### THE PROBLEM OF INDIA

OF all the achievements of the British genius the creation of the British Empire of India is the most spectacular. It may yet—if we can see our task through to its fulfilment—prove the most significant for the future of the world. No romance can compare with the story of the handful of Englishmen—never more than a handful—who, beginning as mere traders and merchant settlers, have in barely two centuries built up the majestic structure of an Imperial system under which peace, order, and good government are secured for three hundred and fifty millions of human beings of many races and creeds inhabiting what is in essence a continent of its own. For India is truly a continent, a definite region of the world, in at least the same sense as Europe. She is not less in extent or population than the real Europe which begins west of Russia. She is more sharply separated from the rest of the great Eur-Asiatic land mass. She is inhabited by a no less distinctive breed of men.

In one sense, indeed, India is much more “continental” than Europe, which is mainly “peninsular,” lending itself to natural subdivision and to the growth of self-contained nationalities. India, within the rough quadrilateral of her mountains and seas, has no natural internal frontiers. That is the fundamental historic and political feature of the Indian problem. Her successive conquerors have inevitably tended and striven to extend their racial, religious, or political influence over the whole, and those influences are to-day inextricably intertwined from the Himalayas to Cape Comorin. Only in political unity can India find peace and stability. That was why India accepted the alien rule of the Moghuls. That was why, after the almost unbelievable horrors of the century of anarchy which followed the breakdown of that rule, she welcomed the efficient, just, detached yet sympathetic administration that Englishmen

were prepared to give her as circumstances progressively forced the responsibilities of Indian government upon them.

We gave to India the unity of government which was her first need. We gave it her in the only form in which she could then conceive of government, namely government from above. The bureaucratic system which we established in India was not, as a type of government, alien to the ideas of the India which accepted it. Nor was the notion of a ruling race from outside essentially repugnant to peoples whose history, from earliest times to that of the Moghuls, had accustomed them to racial ascendancy, and among whom caste—sprung originally from the same source—was an infinitely stronger influence than nationality. Yet, even from the start, we gave more than any of our predecessors. Our rule, if autocratic, was never arbitrary. Wherever it extended, British rule brought with it the Reign of Law, and India received almost simultaneously those first two stages in the development of ordered freedom which for us were marked by the Norman Conquest and by the granting of Magna Carta. And if we did not, and could not, give India British political institutions at the outset, we made them inevitable in the long run by our gift of the English language, the strongest unifying force in India, not merely as a common medium but as the common foundation of all political thinking among Indians of every race and every creed.

It is the fashion to blame Lord Macaulay for all Indian unrest. There is some ground for the charge in so far as the system of English education which he initiated in India was too purely literary and too completely divorced from practical pursuits as well as from older Indian traditions. But it is absurd to think that Indians, however educated, would have been content to be excluded indefinitely from the government of their own affairs. As memories of the old anarchy faded away; as political unity, peace, order, and good government came to be accepted as matters of course; as the new conditions afforded opportunities for Indian capacity to show itself in whatever fields were open to it; as the contagious influences of European nationalism gradually spread eastwards; as the spell of European invincibility was broken by sheer superior ability

in the Russo-Japanese War—the demand for emancipation from external control and tutelage was bound to grow, and in the end become irresistible. If so, then surely it is fortunate that the demand should have been influenced by English ideas, and advanced by men steeped in English law and in English constitutional history.

It might have been better for India if the English political literature of the last century had been less dominated by the abstract doctrines of a democratic Liberalism which could only work in this country subject to the corrective of strong unwritten traditions, and which is in many of its aspects peculiarly inapplicable to Indian conditions. But, after all, if Indian politicians are inclined to be somewhat doctrinaire Liberals and Radicals, it is still an *English* Liberalism or Radicalism that inspires them. Their leading ideas are fundamentally ours, and even with their doctrinaire theories they have mostly imbibed some of the saving qualifications, some of the historical and practical sense, on which we pride ourselves. They are men with whom we can talk—and there lies the best hope of a successful solution of the Indian problem. I doubt whether a Frenchman or German, reading through the volumes of the proceedings either of the Round Table Conferences or of the Joint Select Committee, would, but for the names of the speakers, know which contributions to their discussions were those of Englishmen or of Indians. Nor could a body of English statesmen have ever arrived at so far-reaching and so detailed a measure of agreement on a complicated constitutional problem with any conceivable collection of European statesmen as was reached between Englishmen and Indians in the course of those discussions.

Macaulay, indeed, looked to his system of English education as leading some day to the demand for English institutions, and claimed that when that day came it would be "the proudest day in English history." In principle, at least, we have from the very first encouraged India to look to self-government as her proper and rightful destiny within the British family. In practice, for the half-century which followed the establishment of the direct rule of the Crown after the Mutiny, we were too intent on the immediate

efficiency of administration to face the political problems of the future, and to prepare for them by a progressive opening of the field for Indian executive and legislative responsibility. On the contrary, the whole tendency was to eliminate such elements of indigenous self-government as still survived by a direct rule whose greatest merit, the personal authority of the individual English district officer, became, in its turn, more and more submerged by the routine of an over centralized bureaucracy. It was only after the turn of the century that Lord Minto, a Conservative statesman with Dominion experience, became convinced and was able to convince a Liberal Government that Indian political aspirations were a real and permanent force and one to which some effective constitutional expression must be given. India and the Empire owe much to Lord Minto's insight and generous sympathy. He was the first to appoint an Indian to the Viceroy's Council, and to make a beginning of the opening to Indians of a career in the officer ranks of the Indian Army. The Morley-Minto reforms of 1909 enlarged the existing Legislative Councils, and, in the provinces at least, established non-official and largely elected majorities.

The line of advance from nominated to partially elected Legislative Councils and so to elected majorities, still retaining the executive power in official hands, is one that has more than once been followed in our dependencies with the idea that it embodies a policy of cautious concession. As a matter of fact, it is a policy which is inherently bound to lead either to deadlock or to capitulation. The opposition of a representative but irresponsible majority to an irremovable executive makes for reckless and destructive criticism in the legislature and for even more reckless agitation outside. On the other hand, the executive, jealous of its position, but afraid of clamour or obstruction, is alternately obstinate and timid in council and increasingly out of touch with the public outside. In the end it either abdicates or is compelled to sweep the representative legislature aside. That is the main reason why representative institutions were swept away everywhere in Europe and only survived in this country—after they had led to one Civil War at home and another in our American Colonies—thanks to the evolution of respon-

sible government, to the expedient of selecting Ministers from men enjoying the confidence of the majority of the legislature and making them responsible for securing the support of that majority for the ordinary work of "carrying on the King's government." That, too, is the reason why the system of elected assemblies with an irremovable official executive, once universal in our Colonial Empire, has almost everywhere been superseded either by responsible government or by direct Crown Colony control over both executive and legislature. Only in such quiet corners as Bermuda, the Bahamas, and Barbados, has the old seventeenth-century system managed to survive.

Where the division between irremovable executive and irresponsible legislature was accentuated by difference of race, and where, further, the elected representatives were imbued with an exaggerated conception of parliamentary government as a natural and obvious right, the situation was bound to be even more dangerous. It was inherent in the Morley-Minto reforms, however well-intentioned and perhaps inevitable, that they should inflame rather than appease agitation, and should tend to breed agitators rather than statesmen. This danger was forcibly pointed out by Mr. Lionel Curtis in a little book, *Letters to the People of India*, which exercised a profound effect on political thought both in India and at home. The first-fruit of the new trend thus given to our ideas about India was the famous declaration of August 1917 pledging the British Government to the increasing association of Indians in every branch of the administration and to the gradual development of self-governing institutions with a view to the progressive realization of *responsible* government in India as an integral part of the British Empire. The next was the introduction of the element of responsibility into the Provincial Councils by the Montagu-Chelmsford proposals as embodied in the Government of India Act of 1919.

Unfortunately, Mr. Montagu, while sincerely sympathetic to Indian aspirations, was dominated by doctrinaire Liberal conceptions. He seems never to have clearly understood the central conclusion of Mr. Curtis's argument, which was extension of real responsibility before

any further extension of irresponsible representation. Even Mr. Curtis's main suggestion, that of transferring certain provincial services to Indian Ministers responsible to legislatures, was weakened by making the area for the exercise of these transferred powers identical with that of the provinces, instead of creating special sub-provinces for the purpose. The dyarchy actually established, under which Ministers and nominated Councillors work in juxtaposition in the same legislature, has inevitably tended both to blur responsibility and to concentrate parliamentary interest on the demand for further powers. Still, the provincial system has afforded a real training ground in responsibility. Indian Ministers have, on the whole, striven faithfully to maintain the high traditions of public service inherited from their official predecessors, have shown a laudable solicitude for the welfare of the poorer classes, and have in some instances achieved notable advances in the field of education and public health. The experience in local self-government has been less fortunate, partly because the enabling Acts which relieved district boards and municipalities from local official direction did not at first retain adequate control for Ministers, but even there progress has been much more encouraging in recent years.

Far more serious was the creation at Delhi of a central legislature for the whole of British India with a representative majority directly elected by immense constituencies. That was repeating the mistakes of the Morley-Minto reforms with a vengeance and playing straight into the hands of Congress, of Mr. Gandhi, and of every unpractical agitator and extremist. The surprising thing, indeed, has been not the inevitable futility and factiousness of the Central Legislature, but its comparative good sense. Somehow or other the Government of India has so far managed to continue to govern and maintain its authority. But it would be idle to pretend that it any longer enjoys that unquestionable self-confident sense of power or the unquestioned prestige that it once had. The one thing which increasingly impressed the Joint Select Committee as they proceeded with their inquiries was "not the strength of the Central Government as

at present constituted, but its weakness," and they concluded that the main problem facing Parliament was "how to strengthen an already weakening Central Executive." The fact is that the present position is inherently untenable, and would have led sooner or later to a general paralysis of government or to the suppression of the Legislative Assembly, if the Round Table Conferences and the prospect of an All-India Federation had not made it possible to find a way out on to sounder ground.

The first stage, both in correcting the mistakes of the 1919 Act and in paving the way for further constitutional advance, was the appointment in 1927 of the Statutory Commission under Sir John Simon's chairmanship. Apart from an admirably comprehensive and understanding picture of the complex Indian situation, the Report of the Commission was noteworthy for two main conclusions. The first was that the Provinces were ripe for full responsible self-government, including the administration of law and order. The other was that British India, as such, was utterly unsuited to provide the foundation of any permanent system of self-government. So long as bureaucracy was in control, and could in a measure look after the interests of the Indian States as well as of British India, it mattered little that the two Indias—geographically and economically inextricably interlocked, and forming together the only natural unity that India possesses, the unity of the whole sub-continent—were under two separate systems of government. To create a self-governing Dominion of British India—the natural sequel of the Montagu-Chelmsford Central Government—would be to bring about a wholly indefensible partition of an essential unity, and to put the States into an impossible position. An All-India Federation was, therefore, in the Commission's opinion, the only ultimate solution of the problem, and it was to this that all their marshalling of facts and of arguments irresistibly pointed. But, regarding this solution as still distant, they recommended, as an interim solution of the unsatisfactory situation at the Centre in British India, the substitution, for the directly elected Central Legislature, of one elected by the members of the Provincial Legislatures.



In any case the states were outside the purview of a Commission appointed under the 1919 Act, and it was at the Commissioners' own instance that the field was enlarged by the convocation of the first Round Table Conference in 1930. This was the first occasion on which the Indian Princes and their Ministers had ever met both British and British-Indian statesmen to consult over the common welfare of India. From the first it emerged that the position of the States in face of the growing control of matters vitally affecting them, such as tariffs, railways, and economic policy generally, by a legislature in which they had no voice, as well as of many of the tendencies of that legislature itself, had long been an object of their careful study, and that many of them had independently come to the same conclusion as the Simon Commission, that All-India Federation was the inevitable solution. Only, in the opinion of their most influential representatives, voiced by the Maharajah of Bikanir, the solution was urgent, if the position of the States was not to be irretrievably prejudiced by the course of development. If there was to be a new Central Legislature, they must be in it at the outset. But if they were to surrender a large portion of their own sovereign powers to such a legislature, they insisted that this could only be in return for a responsible voice, for the right to a share in administration as well as in legislation. The ability and breadth of view with which the Princes and their spokesmen stated their case not only converted the representatives of British India to what was to most of them a new conception, but also secured the acceptance by the British Government of the principle of responsible government at the Centre. From that moment the main structure of the future India was decided. All else—two further Round Table Conferences, three special Commissions of Inquiry, the long investigations of the Joint Select Committee—however important, was only the detailed working out of the Great Design.

The action of the Princes precipitated the issue of responsibility at the Centre. But it was not an issue which could, in fact, have been avoided, or can be avoided now, if, by any chance, the Princes have really changed their

minds and decline to join in the federal scheme. The inherent weakness of the Central Government under the present system will inevitably be accentuated by the establishment of provincial autonomy. Every dispute between the Provinces and the Centre will afford opportunity to an irresponsible legislature to make mischief. In the end responsibility at the Centre would have to be conceded for British India alone. However unfortunate for the States, and, indeed, for India as a whole, that would at any rate be preferable to a political situation in which continuous factious controversy inside the legislature, and unscrupulous agitation outside, would increasingly impede ordered progress in every field. Responsibility at the Centre is not something in itself undesirable which we are asked to accept in order to secure the advantages of All-India Federation. It is an inherent necessity of the whole situation, but one whose dangers would be greatly mitigated, and its good effects enormously enhanced, by the participation of the States.

The advantages of All-India Federation in the field of economic policy are in themselves conclusive in its favour alike from the point of view of the States and from that of British India. But there are other even greater advantages in bringing the States into the new framework of Indian self-government from the start. That their rulers are imbued by a deep traditional loyalty to the King-Emperor, and that they look upon the maintenance of the Imperial connexion as a guarantee of their own position, is certainly no disadvantage when it comes to setting the tone, whether of the new legislature or of the new All-India Cabinet. But apart from that, their representatives will bring a measure of responsibility which will be invaluable both in council and in debate. Indian Ministers have long governed, and often governed well, in Indian India. At the Round Table Conferences their contribution to the discussions gave striking evidence both of high ability and practical good sense. More than that. They will represent in the new self-governing scheme something essentially Indian. Some of the States go back to remotest antiquity; others are relatively modern. But all, as a type, represent something

older and more essentially indigenous than any government that has ever embraced the whole, or most of India under its authority. In fruit growing the best results are achieved by grafting on to a hardy root stock native to the soil. That invaluable element the Indian States can supply to the new growth of an Indian constitutional system which can only succeed if it is truly Indian as well as truly British. It is the supreme merit of the scheme which has emerged from our long deliberations that it is not being imposed upon India on some ready-made plan from outside. Its main features are all, to quote the Joint Select Committee, "the natural evolution of an existing government and the natural extension of its past tendencies." Its details embody the results of seven years of continuous discussion to which Indian and British statesmanship have made their equal contribution. The India of the future will have its roots deep in Indian soil.

The main structure of the new scheme of self-government is federal. That is the inevitable consequence of Provincial autonomy. So long as India was bureaucratically governed it was possible to decentralize by devolution. Once self-governing institutions are introduced their respective fields have to be defined, and that is federation. Ever since 1920, in fact, the government of India has been quasi-federal, and the changes which the new constitutional system will introduce in that respect will be more important in constitutional law than immediately obvious in practice. The Federation and the Provinces will each have their exclusive field of jurisdiction, while over a certain number of subjects there will be concurrent rights, mainly in order to secure uniformity of legislation, and with special safeguards to prevent the kind of conflicts between state and federal rights which have taken place in Australia or in the United States. What is, however, significant and distinctive is that while the structure for normal legislative and executive purposes is strictly federal, it is contemplated that the Governors should, in the exercise of their special discretionary powers, be largely subject to the authority of the Viceroy. What might be called the discretionary or emergency aspect of Indian government is, in fact, to be devolu-

tionary and not strictly federal. In a real crisis India could still be governed by a single will.

The States, as independent sovereignties, obviously cannot be included in the scheme by British legislation. The Government of India Act provides for their individual voluntary accession. This will inevitably involve certain anomalies. Some of the States will undoubtedly insist on the exception to the application to their own territories of certain items in the standard list of federal subjects, and will be able to make out a good case for their insistence by reason of treaty rights or of special privileges long enjoyed. So long as this process is not allowed to go too far, and the main subjects in the federal list are generally accepted, no great harm is likely to ensue from this, or even from the exclusion of ordinary income tax, a source of revenue which the Princes have expressed themselves as reluctant to surrender to the Federal Exchequer. To attain to complete uniformity in framing a constitution for a continent is clearly impossible. Nor need we fear greater parliamentary difficulties arising in practice from these anomalies than arise with us when, for instance, Scottish members vote on such matters as the English divorce law or the Church of England Prayer Book.

The Round Table Conferences and the White Paper concluded in favour of a Central Assembly directly elected, so far as the British Indian part of it was concerned, by a general Indian electorate. Reversing this conclusion, and reverting to the proposal of the Simon Commission, the Joint Select Committee recommended that the Central Legislature should be elected by the Provincial Legislatures, and this recommendation has been embodied in the Act, in so far at any rate as regards the Federal Assembly, only the Federal Council retaining the feature of direct election by a very limited all-India electorate. This is a definite departure, not only from the actual practice of direct election to the present Delhi Assembly, but also from the general practice of federal systems in which the Lower House of the Federal Legislature is supposed to be directly representative of the people. It is one justified, first of all on the purely practical ground that representation, already

lacking most of the reality which springs from personal contact between electors and elected, would become wholly meaningless when, with the inevitable extension of the franchise, candidates would be soliciting the votes of hundreds of thousands of voters over rural constituencies the smallest of which will be larger than Yorkshire!

But there are stronger inherent arguments for the change. The notion of a self-conscious Indian democracy, capable of expressing its views on federal issues which rarely touch it directly, as the foundation of the political system, has no warrant in the facts of the case, even in British India. The existence of the States, where direct representation is anyhow ruled out, makes the notion even more inappropriate. Selection by the Provincial Legislatures will provide a representation more closely in line with the representation from the States. The Federal Legislature cannot be the central organ of an Indian democracy organized on party lines, because there is no such thing. It will be much more a standing conference in which India as it exists to-day, in its divisions into States and Provinces, and in its religious and racial communities, will be faithfully represented. Its Ministries also are bound, even more than Federal Ministries elsewhere, to make certain that all these local and communal interests are represented in their ranks, before they can think of assigning primary importance to considerations of party policy. Its main function, after all, will be to deal with issues closely affecting the Provinces, and the more closely and continuously its members are kept in touch with the Provincial Legislatures and Ministries—and the smallness of the electoral bodies should make certain of that point—the more likely is the new system to work smoothly during the critical initial years. Later on the political development of India and the increasing range of federal responsibility may possibly make it desirable to base the Federal Assembly more immediately upon its own electorate, though even then not by direct election but through some form of indirect or corporative election, e.g. by village panchayats or urban guilds, for which the basis has yet to be found, and provision for this is made in the recommendations of the Joint Select Committee.

The electoral basis will, for the present at any rate, have to be communal. This has been recognized ever since the Morley-Minto reforms and is an inherent necessity of the situation. Where racial or religious divisions cut deeper than any other political considerations they are only accentuated by being ignored in the electoral system. Every contest in a common electorate becomes, in fact, a communal contest, and the communal minority never secures a chance of representation. Even proportional representation only partially meets the difficulty. The only solution in such cases is to recognize the facts by making your electorate communal and not merely geographical. With the communal factor thus eliminated it becomes possible for rival candidates within a community to advocate genuinely political policies, and for a legislature to comprise all communities in due proportion and yet to be divided on lines of general policy.

The communal divisions of Indian life cut too deep to be ignored, and both the electoral system and the special responsibilities of the Crown and its armed forces in reserve will long be required to guard against the dangers which are latent in them. But, for all that, they co-exist with a growing Indian national patriotism. They have not prevented the fruitful co-operation of Hindu and Moslem in the government of the States, or in innumerable public and private activities in British India. Like so much else in India they cannot be made to fit into the picture of a democratic parliamentarism based on party lines. But they need present no insuperable obstacle to the development of a truly responsible system of self-government. And it is this, and not partisan democracy, that we have promised India.

The sphere of responsible self-government in the new federation covers everything except Defence and Foreign Affairs. Relations with other governments in the Empire, and in substance, though not in form, commercial treaties with foreign countries, are to come within the purview of Indian Ministers. The reserved departments will be administered by Counsellors responsible to the Viceroy alone, though it is contemplated that they shall take part in the discussions of the legislature as spokesmen for their

departments, and throughout keep in closest touch with Federal Ministers. Such a system is obviously open to the charge that it is a form of dyarchy. But dyarchy there must be in India somewhere, so long as there is any element of Indian self-government, or so long as the Imperial factor is not wholly eliminated. Somewhere there must be a division of authority, and a corresponding point of contact and junction between these two sides. The worst form of dyarchy is that which exists at the Centre at present, the dyarchy between an irremovable executive responsible to the Secretary of State and an irresponsible legislature claiming to be responsible only to the people of India.

The solution now adopted is one which assigns to the sphere of Indian responsible self-government the whole social and economic life of India in all its aspects, provincial, central, external, and to the sphere of the Governor-General's authority functions which hardly affect the ordinary life of the Indian citizen, and whose exercise no Indian would, to-day at least, wish to see in partisan hands. At no other point is it possible to make so clean a cut, or to leave so limited a contact surface on which friction may develop. Some friction, indeed, is inevitable, if for no other reason than that the two sets of services have to draw on a common pool of finance. But at any rate we start with an existing and customary allocation of expenditure which in substance is likely to be maintained, and with the hope that an improvement in the economic situation may provide a growing margin which both sides can share.<sup>1</sup>

The area of federal jurisdiction is to cover the whole of India proper. Burma, which geographically, historically, and racially is an entirely different entity, is to be excluded and established on a self-governing footing with a constitution parallel to that of India, subject to the one important distinction that its structure will be unitary and not federal. This step is one not only important in itself but in its possible remoter implications. The new status of Burma

<sup>1</sup> It would not be an exaggeration in this connexion to suggest that a restoration of the price level of primary commodities would do more to ensure the success of the new scheme of Indian government than any other step which it is in our power to take.

cannot fail to exercise its influence upon political aspirations in Ceylon and Malaya. Some closer relationship between the various British territories to the east and south of India may yet develop, even if only for trade and defence. Nor is it inconceivable that in the event of a possible complete break up of China, we might find ourselves one day obliged to assume some measure of responsibility, through alliance or otherwise, for the future of what is now Chinese territory between Hong Kong and the Burmese frontier.

So much for the structure of the new system of Indian government. What is far more important is its character. The real question underlying the great venture upon which we have embarked is whether Indians are capable of making a success of responsible self-government, or whether the only result of entrusting them with the control of their own destinies will be inefficiency, corruption, and eventual chaos, from which the inarticulate millions of India's peasants and workers will be the chief sufferers. The answer to that question depends entirely on what is meant by responsible self-government. If it means government by mere arithmetical majority from below through party machinery—government by party, through party, and for party—it is bound to fail. And it will fail in India even more disastrously than it has failed in Europe, or in other Eastern countries where it has been tried in recent years. It would, for that matter, fail equally in this country, or in any Dominion, if it were once instituted in accordance with the current political theories of Liberal and Socialist speakers and writers, without the strong corrective which our political traditions and instincts, little spoken or written about, have so far been able to supply.

But responsible government, as I have said elsewhere, means something very different. It is a system of government in which the leading members of the legislature, and through them their followers, are imbued with a sense of responsibility to actual facts, because, as executive Ministers, they have to carry out themselves, and put to the test of practice, the proposals they have advocated in the country or in the chamber. That is the first and most general sense of the word responsibility



in this connexion. There is another sense, namely, the responsibility of a Ministry to its own followers and partisans, a much narrower and less important implication of the word, though it is often spoken of as if it were its main purport. But there is yet a third sense, historically and constitutionally not the least significant, and that is the responsibility of Ministers to the Crown, as the representative of the permanent national interest, for the conduct of the majority. It is the "carrying on of the King's government," with due regard to the interest of all the King's subjects, that is the first responsibility of a Prime Minister, and in the exercise of that responsibility it is his business to lead and control his followers. Personal leadership and parliamentary discipline are of the essence of true responsible government.

These various facets of the meaning of responsibility have in this country gradually crystallized into a tradition which is one of the strongest and most enduring elements in our otherwise flexible constitution. As that tradition grew, the personal power and right of the Crown to intervene at its discretion in the interests of the balance and continuity of the national life has become more and more dormant. But no constitutional lawyer would venture to say, if that tradition, those unwritten rules that we set ourselves, were brushed aside by some new fanaticism of party claiming for a temporary majority an unlimited right to override all conflicting views and interests, that those dormant powers might not yet, with full constitutional propriety, as well as legal right, be brought to life again.

It is from this point of view that the Joint Select Committee have made their greatest contribution to the Indian problem in their elucidation of the true significance of the so-called "safeguards." As they point out, the word safeguard is neither meant to imply a selfish reservation of powers inconsistent with any real measure of responsible self-government, nor, on the other hand, a mere ineffective rearguard action, masking a position in fact evacuated, whose only object is to conceal the extent of our abdication of responsibility. Their whole conception, on the contrary, is that of the reinforcement of self-government by supplying

those essential elements of balance and restraint which are embodied in our parliamentary tradition, but which may still be too weak in India to afford sufficient protection against the dangers of party violence or communal prejudice. Accepting the safeguards empirically arrived at during the Round Table Conferences in the shape of special responsibilities imposed upon the Viceroy or Governor in respect of subjects where those dangers might be most likely to arise, they have developed and expanded them into a constitutional principle, that of the positive discretionary power of the Crown, statutorily affirmed, and embodied in personal representatives themselves bred and trained in the British tradition, and enjoying the further advantage of a complete detachment from local issues.

It is to this flexible reinforcement of responsibility, even more important from the point of view of starting Indian self-government with a sound tradition, than from that of the incidental protection of British interests which might be threatened, that we must look for the success of the whole experiment. It is a reinforcement which will be applied far more through the weight which it will give to the representatives of the Crown in their everyday confidential intercourse with Ministers than in the actual exercise of the discretionary powers, which it may be hoped will be of infrequent occurrence. It implies in the representatives of the Crown, and above all in the Governor-General, exceptional gifts of wisdom, courage, and sympathetic understanding. Those were the gifts of the men who made the old Indian Empire. Need we despair of finding them in the men whose task it will be to help to shape the new Indian Empire? It implies in Indian Ministers a response to these qualities, a willingness to co-operate, a personal loyalty, a courage to stand by that loyalty in action. It was by that loyalty and courage that Indians played a worthy part in the creation of the old India, and can play, with growing responsibility, an ever greater part in building up the new.

Such, in its main outlines, is the scheme of Indian self-government to which this country stands committed in the Act now on the Statute Book. It is a scheme essentially conservative in the character of the self-government en-

visaged and in many provisions calculated to give steadiness and continuity and to break the impact of irresponsible party influences. At the same time it is bold and generous in the scope of self-government conceded, which covers the whole of India's national and domestic life apart from defence and foreign relations. One can but hope that Indian public men will increasingly realize this, and understand that the safeguards embodied in the new system of self-government are not so much powers retained by this country over India, as powers necessarily inherent in any system of self-government which is to work under Indian conditions. The field opened up to Indian statesmanship is immense. We have laid a sound foundation. But the work that still remains to be done in building up the economic and social life of India far transcends anything that we have achieved so far. Much of it, indeed, possibly the most important part, is work that we have never ventured to touch, for fear of violating our pledge not to interfere with the religious usages of the people, work in which only Indian men, and Indian women, can give the lead and face the necessary conflict.

The new reform scheme is meant to work; I believe that it will work, and that Indians, once they have discovered the extent of their powers, will work it with a will. But precisely how it will work, what issues its working will bring to the front, no one can foretell. Responsible self-government in India will certainly develop on lines very different from those on which it has developed here. The growth of a provincial patriotism may, for a time at least, obscure the slower development of a genuine All-Indian patriotism. Provincial issues, covering by far the greater number of questions that directly affect the life of the people, are not unlikely to predominate over central issues, and social questions over all others. The tremendous rigidity of the Indian social system has shown signs of breaking down in many directions in the last few years. The new sense of unfettered power to inaugurate changes may give a wholly incalculable impetus to the demand for social reform and for the modernizing of religious customs and beliefs. The "unchanging East" may prove as swift to

change in India as in Turkey. If so, we may see many other remarkable results of a century of English teaching and reading besides the present demand for political self-government.

The advance which we are now making is, I believe, at once the maximum which can be made in present circumstances, and the minimum which will convince serious Indian opinion that we are whole-hearted in the profession of our desire to see India advance towards equal partnership with us in the British Commonwealth. But neither in the nature of things, nor from the point of view of our pledges, can we regard it as a final solution. The Joint Select Committee, in their Report, indeed, refused to look beyond the immediate step before us. They gave no indication as to how and when, or by what successive stages, the sphere of Indian self-government is to include defence and foreign policy. To the intense disappointment of Indian public opinion generally they did not even refer to that goal of "Dominion Status" which seems to exercise as great a fascination for the Indian mind as it alarms the more tentative and matter-of-fact Englishman. In this their example has been followed by the Government, in so far as any rate as the actual text of the India Act is concerned. But that text retains, by reference, the preamble to the Act of 1919 repeating the Declaration of 1917, and the Draft Instrument of Instructions to the Governor-General expressly enjoins upon him so to exercise his trust "that the partnership between India and the United Kingdom within our Empire may be furthered, to the end that India may attain its due place among our Dominions."

The essence of Dominion Status, as defined in the famous introductory passage to the Report of the Constitutional Relations Committee of the Imperial Conference of 1926, is equality in a mutual association not based on the subordination of one partner in the Commonwealth to any other. But, as the same passage points out:

"the principles of equality and similarity, appropriate to status, do not universally extend to function. Here we require something more than immutable dogmas. For example, to deal with questions of diplomacy and questions of defence we require also flexible machinery

—machinery which can, from time to time, be adapted to the changing circumstances of the world.”

The claim to the ultimate equality of India with the Dominions and with ourselves is a perfectly natural one for Indians to put forward. It is one which has been encouraged by many public declarations on the part of British statesmen since the War. Nor is there any reason why, in principle, we should not admit it, providing that we make it clear, as Lord Balfour made it clear in the passage quoted above, that the functions through which it is expressed must vary with the circumstances and conditions of each case, and that, consequently, the constitutional machinery by which effect may eventually be given to it in the case of India, must be shaped by the inherent conditions of India's internal and external situation.

This is particularly so, as the same passage pointed out, when we come to the problems of defence and external policy. In the case of the Dominions neither defence nor foreign policy has hitherto played any dominant part in their national life. Their geographical isolation and the protection of the British Navy removed all possibility of direct contact with potential foreign aggression during the period of their constitutional evolution. They could afford to take their general security, whether maintained by armaments or by diplomacy, for granted, and regard defence as in normal times only a matter of local and subordinate importance. Nor did their protection against the outside world in fact involve the government of this country in serious additional expenditure or add materially to the difficulty of its diplomatic relations. That situation has not been substantially changed, so far at any rate, since the War. The consequence is that while the Dominions acquiesced contentedly, before the War, in the theoretical limitation to their status implied in Britain's exclusive control of foreign policy, and while Britain has since then acquiesced, equally contentedly, in the Dominions conducting as much foreign policy as any of them may have found convenient in practice or conformable to their notions of status, the main foreign policy and defence of the whole Empire have continued to rest upon British shoulders. Except for occasional con-

ferences and a certain amount of consultation and exchange of information in between, no constitutional machinery for dealing with these problems has been contrived, for the simple reason that the need for it has not, so far, seemed urgent. Once that need should become urgent, then, obviously, the present casual system would be bound to give place, in relation to the Dominions concerned, to one based on more definite mutual engagements and embodied in more effective machinery.

India's situation in these respects has been and always must be entirely different. She is a continental state with a frontier exposed to immediate invasion from fierce and warlike frontier tribes. Behind those tribes, at a distance which is being steadily diminished by modern developments, is Russia with her old traditions of territorial expansion and her new essentially aggressive fanaticism. Neither to west of her nor to east of her, neither in Persia and Arabia, nor in the Far East, is there much prospect of permanent political stability. The emergence of Japan as a great naval Power will steadily involve this country in increasing naval commitments—the seaward defence of India will no longer be a mere incidental covered by our general maritime supremacy. India's defence by land demands, even in peace, a large standing army in which, for long years to come, the British units will form an indispensable element. In war her defence will at once require reinforcements on a large scale from the air and land forces of the United Kingdom. Even in her internal affairs the presence of the British element in the Indian Army will long be needed as an ultimate impartial support of law and order for the contingency of serious civil commotion. These facts do not affect India alone. They affect the whole structure and scale of our military organization in this country. They have shaped, and will continue to shape, the whole course of British foreign policy.

India's foreign and defensive policy is based, and must continue to be based, on a close *de facto* partnership with Britain for which there is, so far, no parallel in the relations between this country and the Dominions. How is the effective continuance of that partnership to be reconciled with India's natural aspiration to eventual equality of

status within the partnership? I do not believe that either India or this country could afford to face the solution which was possible, in the peculiar circumstances of the nineteenth century, in the case of the Dominions. We cannot withdraw the British Army from India, as we progressively withdrew it from all the Dominions, leaving India to fend for herself with her own resources. No sensible Indian has ever advocated that solution. Nor, on the other hand, could we do, in the case of India, what we have never dreamt of doing in the case of a Dominion, leave a British Army in India at the uncontrolled disposition of a purely Indian Government, whether to suppress disorders brought about by the domestic policy of that government, or to wage a war resulting from its foreign policy.

The dilemma is not one that can be evaded indefinitely by ignoring it. No mere reservation of powers to the Governor-General can hold back for more than a limited period of years the instinct for self-government, the passion for status, which will work increasingly to encroach upon it. At some point or other—and it may not be a very distant point—it will become necessary to find a constructive solution. That solution must involve, on our side, a fuller recognition of India's claim to equal status, and, on the part of India, no less explicit a recognition of our joint interest and joint responsibility in her defence and foreign policy. To satisfy the first condition the arrangement must be one based on definite agreement, to satisfy the second it must be embodied in constitutional machinery which will enable us to continue to assert our joint responsibility for the conduct of these affairs.

A similar conflict between status and practical necessity was solved in Austro-Hungarian relations in 1867 by leaving the common defence and foreign policy as reserved subjects in the hands of the King-Emperor and of Ministers outside either Parliament, but periodically meeting equal delegations from both Parliaments for information and consultation. That solution, embodied in an agreement subject to revision every ten years, held for fifty years, before the Dual Monarchy succumbed, in the Great War, to forces which no mere constitutional machinery could

withstand. The joint Select Committee have already suggested that the Governor-General might, without derogation from his authority in these matters, summon, for the purposes of consultation, an Indian advisory body similar to the Committee of Imperial Defence. Some such body, strengthened by an equal representation of delegates selected by the British Government or drawn from Parliament here, and established on the basis of a definite pact assented to in both legislatures, might, perhaps, some day provide the required constitutional machinery as between India and this country, pending the possible evolution of machinery for closer effective co-operation for the whole Empire.

Any constitutional agreement would necessarily demand a frank facing of the financial responsibility behind defence. We should be entitled to press to the full the greatness of our contribution to the common task in the maintenance of the Navy, the protection of the Suez Canal, and of the air route to India, and in the cost involved in maintaining the type of army which can both supply India's peace needs in British units, and furnish her with the required support in war. India would be equally entitled to lay stress on the training she affords to British troops, and the potential value of her armed forces in conflicts beyond her immediate confines. Such an examination might, possibly, lead to the conclusion that we should have to make some increased contribution to the cost of India's land forces. It might equally, some day, lead to the conclusion that India should make a more effective contribution to her own security at sea.

In either case an agreement recognizing the joint responsibility of Britain and India for their common defence implies a corresponding recognition of their joint interest in each other's economic welfare as the source from which that defence is to be provided. The extension of the system of mutual preference already established at Ottawa might well be the natural correlative of any increased British contribution to the Indian Army, and the bargain might be as profitable to the side that is short of trade as to the side that is short of revenue. The scope for economic co-operation between Britain and India, not only in trade, but



in finance and in commercial and technical organization, is both in range and volume greater than that with any Dominion, and capable of almost indefinite expansion with the development of India's own economic resources and the raising of the standard of living of her population. In the whole of this vast field, as well as in the ultimately even more important fields of science, art, and literature, we and India have more to exchange and more to gain by the closest co-operation. But the co-operation must be free. There is no folly to equal that of those narrow minds who think that, after fifteen years of fiscal autonomy, India can be coerced into economic subordination, and Lancashire has no enemies so dangerous as those would-be champions of her interests who advocate this insanity.

Whatever the precise solution of the ultimate problem of India's status the general conclusion remains the same. The conditions of India, internal and external, are such that self-government can only be conceded, without eventual disaster, if, as its conclusion and coping-stone, we envisage some definite and constitutionally embodied system of partnership for the solution of those parts of her problem which India cannot solve alone. The other day two immense structures of steel, jutting from either side across Sydney Harbour, were brought into contact. Until that moment each was increasingly unstable. Neither could have been prolonged indefinitely without disaster. Linked together they furnished the rigid framework of a bridge capable of carrying the traffic of a continent. Neither Indian self-government nor British democracy can sustain the burden of India's problems unaided, uncontrolled, and unbalanced. In mutual co-operation, clearly defined and embodied in definite agreements, and in an appropriate constitutional procedure, that burden can be sustained with mutual advantage and, we may hope, with increasing mutual loyalty and good will.

Good will, indeed, is of the essence of the whole affair, and not the least of this first great step to which we are now committed. We are launching this vast experiment under no external compulsion. We have not failed to govern India. The machinery of the existing system has nowhere broken

down. We are not yielding either to agitation or to terrorism. We are acting in the full consciousness of our power to act otherwise, because our political instincts, our political sympathies, our judgment as to what in the long run is best for India and for the unity of the Empire have convinced us that the action we are taking is the right one. We are acting on our own judgment, though the detailed conclusions to which we have come have been influenced and shaped at every stage by contact with the best brains of India. All this gives ground for hope that our gift, when its full measure is realized, will be accepted with good will in India, and that patriotic Indians will throw themselves into the task with the desire to make a success of their new powers and responsibilities.

We on our side can increase that good will and double the value of our gift by the spirit in which we give it, by making it the gift of our confidence and friendship, and not the grudging concession of reluctant statesmanship. If we can now create between Britain and India that foundation of good will, based not on sentimentality but on a clear recognition of the facts of the Indian situation, on which alone the fabric of our future relations can be securedly based, we shall, indeed, have crowned the glorious work of those from whom we have inherited our Indian Empire. Our achievement will not only give new life and strength to the whole Empire, but make it more indisputably than ever the model, perhaps even the nucleus, on which the ultimate solution of world problems will be based.

## CHAPTER IV

### OF THE COLONIAL EMPIRE AND OF THE FUTURE

#### I. OF COLONIAL ECONOMIC POLICY

LARGER in area than the Indian Empire, almost equal in population to the self-governing Empire, including the United Kingdom, the Colonial Empire of Britain is only gradually emerging into general recognition as an entity, by no means the least interesting or important, within the wider orbit of the Britannic Commonwealth. Not even India presents such a bewildering variety of races and degrees of civilization, while the easy development of self-government in the Dominion sphere offers but little analogy—and India possibly only warnings—by which to guide our path in the future constitutional evolution of Africa. Nor is there anywhere in the world so rich and almost virgin a field for the creative work of administration. For Britain as a nation, for Britons as individuals, the Colonial Empire presents, in every direction, an opportunity for constructive effort as large as any upon which we have been engaged in the past, and far more varied as our conception of the scope of our duties has widened. The task of the Colonial Office is no longer confined merely to securing that "peace, order, and good government" are maintained in the territories under its control. It is to-day a Ministry of Colonial Transport, a Ministry of Colonial Agriculture, a Ministry of Colonial Health, a Ministry of Colonial Education, or perhaps it might be more accurate to describe it as a General Staff for the whole Colonial Empire in respect of all these matters, whose actual administration is decentralized between some forty different governments.

The primary object of our endeavours, the norm by which we must judge of the applicability of any policy, must be the progress and welfare of the territories and peoples for which we are, in a sense, trustees. That does not exclude, and,

indeed, in the long run most truly promotes, our own incidental advantage in commerce, in defensive strength, in opportunities for the development of our national qualities. Conversely, too, there is no neglect of our more immediate duty of trusteeship involved in considering how far the development of each part of the Empire may contribute towards the development of the whole. Nor is it essential to the fulfilment of that duty to maintain a narrow economic particularism in the Colonial Empire, and to discourage the economic co-operation of the Colonies with each other or with the rest of the Empire, subject always to the test that each territory is receiving as much as it is getting, and is not being exploited for the gain of others.

The total area of the territories administered by the Colonial Office is about 1,860,000 square miles with a population of some 57 millions.<sup>1</sup> To this should be added, if we are to measure the full extent of our direct Colonial administration, the South African Protectorates with an area of nearly 250,000 square miles and a population of about 750,000, administered by the Dominions Office, and the Anglo-Egyptian Sudan, administered under the Foreign Office, with an area of nearly one million square miles and six or seven million inhabitants, while Australia has quite a substantial Colonial Empire in New Guinea and the Solomon Islands, and New Zealand a single small tropical dependency in Samoa. Nearly nine-tenths of the population, and much more than nine-tenths of the area of the Colonial Empire, are in Africa, and, with the exception of the Falkland Islands,<sup>2</sup> Bermuda, and the Mediterranean Colonies, the whole of it lies in the tropics. This, and the concomitant fact that the main element of the population in the tropical parts of the Colonial Empire is African or Asiatic, naturally determines the whole character of the problem with which we have to deal—subject to certain considerations arising from the presence of a growing white population in the

<sup>1</sup> For the fullest and most up-to-date detailed statistics of the Colonial Empire see the *Economic Survey of the Colonial Empire* (1932) issued by the Colonial Office (25s.).

<sup>2</sup> The Falkland Island Dependencies, including a vast sector of the Antarctic Continent, are not included in the above calculations.

highland regions of East Africa of which something will have to be said later.

The total trade, export and import, of the Colonial Empire had reached, on the eve of the great depression, a figure of some £500,000,000 a year (£326,500,000 in 1932). In 1929 United Kingdom exports to the Colonies amounted to over £62,000,000, and United Kingdom imports from the Colonies to over £71,000,000. Since then our trade has fallen away in value, though not in volume, to little more than half these figures (£84,000,000 total trade in 1933). Even so, regarded as a single market, the Colonial Empire now ranks above India as our best customer. In any case, these figures are only an indication of the immense possibilities which lie in the development of these vast territories. That development, moreover, is essentially one complementary to our own, for it lies in the cultivation of tropical products which our civilization demands in ever increasing quantities, while most of the Colonial Empire is still a long way from reaching the stage at which it could enter, with any success, upon a policy of local industrialism, and will naturally look to us for the satisfaction of its requirements, both for finished manufactures and for the railways, bridges, rolling-stock, and other equipment essential to its effective progress on present lines. It is to-day the greatest field for trade and investment still open to us.

The Colonial Empire contains some forty separate administrations of every conceivable type from the seventeenth-century representative government of the Bahamas to the military autocracy of a garrison like Gibraltar. But from the point of view of its economic and political problems it falls into certain broad groups. There is first of all the block of one million square miles of East African territories forming, not only geographically but in other respects, a link between Southern Rhodesia on the one side and the Anglo-Egyptian Sudan on the other. Of only half the extent of the East African group, but almost twice as populous and of even greater immediate economic importance, is the West African group of Colonies. The West Indian group, with British Guiana and British Honduras, the East Indian group which includes Ceylon, Malaya, and

the island territories, the Pacific group, and last, but politically at any rate not least important, Cyprus, Palestine, and Aden, where Colonial Office administration touches the greater issues of our Middle Eastern zone of influence: each of these groups has its special characteristics and problems. Such unity as they have derives from an underlying common basis of thought and method in the Colonial Office and in its administrators, as well as from the immediate tasks which everywhere confront their governments.

The task of the Colonial Office, it must always be remembered, is not one of actual administration. Every Colony or dependency is directly governed by a Governor or other representative of the King, with or without the assistance of executive and legislative councils, purely official, nominated or elective, as the case may be. Each Colony has grown up in its own particular way. Each has its own local administrative tradition going back to the days of its first acquisition, and to the soldiers, traders, missionaries, and others from whom the first scratch nucleus of an administrative staff was composed. Everywhere British administration is racy of the soil, and animated by a strong local patriotism, which is at all times eager jealously to defend local interests against subordination to Imperial interests, let alone to those of any other Colony. This intense and characteristically English particularism is sometimes a serious obstacle to the spread of administrative improvements and to projects for inter-colonial co-operation. But on the whole it is a source of strength and a safeguard both against any tendency to exploit a Colony in the Imperial interest and against the danger of applying uniform bureaucratic methods unsuited to local conditions.

Until comparatively recently nothing was done by the Colonial Office to introduce any common standards of progress or development in the Colonial Empire. The Office itself, divided purely on geographical lines, was internally almost as particularist as the Colonial Empire over which it presided. Each section had its own way of doing things and its own outlook upon economic, agricultural, educational, or health questions. The separation from the Dominions Office made it possible to introduce a gradual reorganization

by which, alongside of the geographical sections which control the general administration of the Colonies, a system of special advisers on every main aspect of development has been created, with a consequent co-ordination and stimulation of progress in every direction, whose full effects will only be gauged when the present economic depression has passed away.

The series of Colonial Office Conferences, which the present writer inaugurated in 1927, has done much to encourage, among Colonial Governors and administrators themselves, the hitherto unfamiliar idea of the Colonial Empire as an entity in itself, of the desirability of co-operation among its various members, and of the advantage of creating, at any rate in such specialist fields as agricultural and medical research, a common Colonial Service offering a wide field of activity and promotion, and at the disposal of the poorer and smaller Colonies, a swell as of the rich and populous ones. This need of the weaker units for assistance has been met to a considerable extent by the institution of a Colonial Development Fund run on broad-minded and progressive lines, and until recently also by the Empire Marketing Board. The Colonial Development Fund Advisory Committee, of which the late Sir Basil Blackett was chairman, has authority to spend up to £1,000,000 a year, and has in the last five years actually spent not far off £4,000,000. While primarily intended to assist capital works involving the placing of orders in this country, the Fund has been used also to promote specific schemes of research and training, or of medical and sanitary improvement, and has in several directions enabled work begun by the Empire Marketing Board to be continued.

The machinery for a policy of active development of the Colonial Empire is already in being both in London and in the Colonial Governments. What is needed is an immense expansion and speeding up of the scale of its operations. That is only possible if certain fundamental economic conditions are satisfied. One of these, a reasonable price level for primary products, has been entirely lacking in recent years. No part of the world has been more cruelly hit by the fall in prices, or seen a more severe setback to its progress,

than the Colonial Empire. The disaster has lain even more in the inevitable cutting down in every direction of promising creative work in research, in health, and in education than in the actual holding up of public works or dwindling away of trade. As the whole of the Colonial Empire, practically, is linked to sterling, the responsibility for that aspect of Colonial development rests directly upon the financial authorities in this country, who have, so far, shown little disposition to do anything to help.

Another essential condition of development is the provision of capital on a much larger scale. To leave this entirely to private finance would, for many purposes at any rate, only be possible on terms inconsistent with the primary duty of the Colonial administrations towards their native populations. One consequence is that the provision of railways, ports, and much that is elsewhere left to the private concessionaire has been kept in government hands. This has meant, in practice, that development has been by Colonial loans for which fixed interest has to be provided from Colonial revenues. Even considerable grants of interest for the earlier years of a scheme from the Colonial Development Fund are often not enough to justify struggling Colonial administrations to commit themselves even five or six years ahead to large fixed charges, which cannot be reduced, however disastrous a local season or however seriously the price level may have fallen. On the other hand, the British taxpayer cannot be expected to finance Colonial development indefinitely by way of largesse. The solution lies, I believe, in the direction once advocated by Lord Milner of making the British Government a shareholder in Colonial development rather than a lender and debt collector. It might, for instance, find capital for railway development, looking only to its share of the profits together with a percentage of general revenue, or coupled with a system of land grants. The precise method would require careful study: what is wanted is a system of financing Colonial development both more flexible and more closely identifying the interest of the British and local governments. Again, in dealing with private finance, what is needed is not merely a negative policy of protecting the native,



but a more positive policy, such as is being carried out by the Sudan Plantations, or is in force in Java, for combining the efficiency of European planning and direction with security to the native both of his tenure and of his share of profits.

At the foundation of all community of interest as between this country and the Colonies there must naturally be an effective system of mutual economic preference. This at once raises a moral issue which must be faced. Are we entitled to use the control which we exercise over Colonial administration in order to enforce preference in our own interest, or is that contrary to the principle of trusteeship which we profess? So long as we believed Free Trade to be the best policy for everybody, and so long as there was a free world market for Colonial produce, it could no doubt be maintained that it was our duty to maintain a Free Trade system in our Colonies. But neither of these things hold good to-day. We do not believe Free Trade to be a good thing in itself. We also know that in the world as it is to-day the condition of a struggling primary producer trying to sell his wares in an ever shrinking and congested world market is an almost hopeless one, and that the only prospect of success lies in the security of a sheltered market. We need only compare the amazing prosperity of the West Indian Islands which have enjoyed the advantage of being inside the American or French fiscal systems with the almost derelict condition of the British West Indies before Imperial Preference came into force, in order to realize that there is no hope to-day for any Colony—above all, a small one—except as part of a wider economic circle, based on mutual support.

After all, if we believe mutual preference to be a good thing for those parts of the Empire which control their own destiny, we must equally believe it to be a good thing for those parts for whose destinies we are more directly responsible. Our trusteeship must be exercised, not in enforcing a system that is disastrous for the Colonies, because we dare not trust ourselves not to misuse our powers, but in seeing to it that, in every case, there is a real mutuality of advantage, and that what a Colony gets in security of

market and in capital assistance towards its development more than balances any possible disadvantage in the shape of higher prices for its purchases. Knowing, as I do, the strength of the Colonial Office tradition, the intensity of the local patriotism of every Colonial administration, and the weight naturally and rightly given in these matters to the local legislatures, where they exist, I am not in the least afraid that the establishment of effective mutual preference is likely to involve the exploitation of the Colonies to their disadvantage in the narrower interests of this country.

A policy of Imperial Preference for the Colonies does not, of course, mean a policy confined to the Colonies on the one side and the United Kingdom on the other, but also a policy of preference between the Colonies and the rest of the Empire. Canada alone may well, some day, become as large an importer of tropical produce of all kinds as the United Kingdom, and may find in the tropical and subtropical regions of the Colonies both her chief source of supplies and her most profitable market. She has already through her West Indian agreements given an important lead in that direction for the last twenty years, a lead followed by other Dominions at the Ottawa Conference, where most of the agreements with this country also included provisions for preference to certain Colonial products. Naturally, too, it is both our duty and our interest to secure favourable conditions for Colonial exports in any trade agreements we may make with foreign countries.

Imperial Preference is now the established policy throughout the Colonial Empire, outside of Africa, with the exception of a few places like Hong Kong and Singapore, which are essentially centres of entrepôt or transit trade, and where its application would be unsuitable. But over most of Africa, in other words over far the greatest part of the Colonial Empire in area and potential economic importance, we are debarred from establishing it by treaty restrictions. These are of three kinds: the Anglo-French West African Convention; the Berlin and Brussels Acts and their sequel the Convention of St. Germain-en-Laye, generally known as the Congo Basin Treaties; and the commercial equality

clauses in all mandates other than the "C" mandates held by the Dominions<sup>1</sup>

The Anglo-French Convention, which covers the Gold Coast and Nigeria and the French West African territories of the Ivory Coast, Dahomey, and part of the French Sudan, provides for identical tariff treatment over the whole area for the produce and manufacture of Great Britain and France and of their respective Colonies, possessions, and protectorates. Originally concluded for thirty years it is now open to termination on twelve months' notice. So far as the purely Anglo-French position is concerned, it has worked in our favour, our exports to the French territory in question being considerably larger than French exports to Nigeria and the Gold Coast (£150,000 in 1932). Owing, however, to the operation of the Most Favoured Nation Clause which is in force in the Colonies concerned, most foreign countries enjoy the same privileges over the whole area. The advantage which we enjoy, as against France, over the transaction, is more than counterbalanced by the fact that we are precluded from transferring to our own industries any of the £3,750,000 of other foreign imports which entered the two Colonies in question during the same period. So far as Japanese competition is concerned, the situation became so serious that we recently, after due notice, released the West African Colonies from their obligations under the Anglo-Japanese Treaty. This policy might possibly be extended as regards other foreign competitors, and the Anglo-French Treaty retained only in respect of the entry of French goods. This would be no serious impairment to the development of effective preference whether with this

<sup>1</sup> In the Anglo-Egyptian Sudan we are debarred from applying mutual preference by the fact that it enjoys a customs union with Egypt, which country would, therefore, have to be included in the system. But this would be contrary to the Most Favoured Nation Clause in Egyptian commercial treaties, so far as preference to this country is concerned, and to the same clause in our treaties, so far as affects the giving of preference at this end. On somewhat similar lines it has been held that we are debarred from giving preference here to Palestine products on the ground that an "A" mandated territory is, technically, a foreign country. This latter difficulty we are attempting to get round by a special provision in recent commercial treaties. But the only satisfactory solution is to get rid of the Most Favoured Nation Clause altogether, as entirely opposed to the trend of modern economic development.

country or with other parts of the Empire, and might be a preferable alternative to actual denunciation of the Convention.

The Berlin Act of 1885 and the Brussels Act of 1890 were part of a consistent policy for the opening up of Equatorial Africa on international lines. A vast region embracing most of the basin of the Congo River was set up as an international Free State under the personal rule of King Leopold of Belgium. But the Congo Free State was only to be part of an area including a large part of French Congo, of Portuguese West and East Africa and of Italian Somaliland, together with the whole of Nyasaland, Tanganyika, Kenya and Uganda, together with a corner of Northern Rhodesia and a strip of the Anglo-Egyptian Sudan, the whole of which was to be governed on international lines of complete equality for all the world in every economic aspect, as well as of actual neutrality between the different local governments concerned, even if their principals should be at war.

The system inevitably broke down. The international state became an international scandal, and eventually secured a more reputable administration as a Belgian Colony. The other areas were, from the first, administered as ordinary colonies by the Powers concerned. When the War came the neutrality provisions promptly went by the board—nobody even thought of taking them seriously. The War terminated the treaties, so far as enemy countries were concerned, and afforded an easy opportunity for the Allied Powers concerned to get rid of any restrictions which prevented the full development of the various territories by the controlling Powers. But in the atmosphere of economic and political internationalism which flourished immediately after the War, the substance of the old Acts, including the provisions against economic discrimination (though not the neutrality provisions), were revived in the Convention of St. Germain-en-Laye, to which this country, France, Belgium, Portugal, and Japan are parties (Italy and the United States signed but did not ratify). The Convention provided that the signatory Powers were to reassemble at the expiration of ten years after its coming into force to

introduce such modifications as experience may have shown to be necessary.

The ten years have elapsed, and our own experience at any rate clearly shows the need of modifying the economic clauses. The days when it was to our interest to secure the greatest possible area of Free Trade, or at any rate non-discriminatory treatment, in the world have passed away for good and all. It is protected markets that we need. Free markets in which not only Germans, Belgians, and Czechoslovaks, but Japanese and, presently, Chinese, Filipinos, and Javanese, can undersell us will increasingly count for less, except for a very limited range of specialized exports. Nor do the native populations—whose interests rank at least equally with our own in this matter—stand to gain by a policy which affords no inducement to us to supply them either with the effectively sheltered market or with the abundant capital resources for their equipment which their development demands. What is true of us is equally true of the other territorial Powers actually administering the Congo Basin Area. In fact the only Power which ratified the Convention of St. Germain, whose interests lie in the maintenance of the present restrictions upon development, is Japan.

It is obvious that if four out of the five ratifying Powers now feel that the fiscally restrictive provisions of the Convention hamper them in the development of their African territories, they are in a position to get rid of these provisions as against each other and as against other countries, in so far as these have enjoyed the same rights under the Most Favoured Nation Clause. How far they are still under any obligations to Powers such as Italy and the United States which signed but did not ratify the Convention or to certain signatories of the original Berlin and Brussels Acts, namely Spain, the Netherlands, Denmark, Sweden, and Norway, is a matter of international law. Whatever the extent of the obligation, it is clearly one that each of the territorial Powers can deal with by direct negotiation in each case. A revision of the boundaries of the Congo Basin Area is in any case urgent in order to get rid of such anomalies as the maintenance of a separate fiscal system for a small corner of Northern Rhodesia.

What applies to the restriction imposed upon our fiscal freedom by the Congo Basin Treaties applies equally to the similar restriction imposed by the Mandatory system in respect of the territories which were surrendered by Germany after the War, in our case Tanganyika and the strips of Togoland and the Cameroons which are now administratively included in the Gold Coast and Nigeria. Here again the restriction was one imposed in the first flush of post-War internationalist enthusiasm, and is, under modern world conditions, contrary to the interests of the territories themselves, as well as inconvenient to the governing Powers. Indeed, so far as we are concerned, we should find it administratively very difficult to work a system of effective Preference, even if we had got rid of the restrictions imposed by the Anglo-French Treaty in West Africa and by the Congo Basin Treaties in East Africa, unless we could also simultaneously get rid of the restriction in the areas under mandate.

Here again the interests of the other governing Powers, France, Belgium, and Portugal, coincide with our own, and their co-operation should be secured for the adoption of a policy better suited to present-day economic conditions. This will naturally involve, for those concerned, a good deal of bargaining with other outside Powers, before agreement on the subject could be formally embodied in a modification of the terms of the Mandates which the governing Powers have undertaken to observe. It is not without importance, in this connexion, that the undertaking to give equal treatment in A and B Mandated Territories applies only to members of the League, and that any obligation in this respect to Germany and Japan will be terminated so soon as their denunciation of membership of the League takes effect.

A word should be said here, in passing, on the general subject of the position of the Mandated Territories. The transfer of territory, of real estate, is the one form of payment on a really large scale which can be exacted by a conqueror. It conveys solid assets, real or potential, and with them that direct control without which the collection of monetary indemnities can never be maintained for any length of time.

In closely settled regions, like those of Europe, such a policy is only worth carrying out where the population of the annexed territory is willing to accept its new sovereignty, and becomes an addition to the national strength of the enlarged state, or where overwhelming economic and strategic advantages counterbalance the real weakness resulting from the attempt to incorporate an unassimilable and potentially hostile element. There is, of course, the alternative, frankly envisaged by Hitler and Rosenberg, of extirpating or expelling the existing population, relying upon systematic colonization and a high birth-rate to take their place. It is a solution which may yet be put into practice if Nazism maintains itself in Germany, and if the European idea fails to triumph over racial or local particularism in Europe.

Meanwhile there is another and far preferable alternative. Where a defeated state occupies large territories, available for economic development or for actual settlement, which it has not to any serious extent peopled itself, or whose existing population has not been assimilated to its own national life, those territories may afford an indemnity of potentially enormous value, without inflicting intolerable material or moral hardship either on the surrendering state, or upon the population which experiences a change of rulers. It is by this means, that we, more than any other nation, have made war pay, not indeed, as the result of deliberate policy, but of the combination of the strategic results of sea-power and of our instinctive craving for space. In the Great War the enemy territories in Africa offered us the natural and justifiable compensation for the sacrifices forced upon us, both in potential resources to be developed and in the physical linking up of our existing possessions. The loss of her African Colonies, on the other hand, meant to Germany no sacrifice of a large population of colonists, nor even of an appreciably substantial market or source of raw materials. It meant the loss only of possibilities. Compared with her losses in Alsace-Lorraine, Silesia, or Polish West Prussia, it was a small injury which has left no real scar upon the national consciousness. Nor is there any unfair disparagement of German colonial administration

involved in saying that the natives have at any rate not been the losers. The extension of our territory and of our control, in Africa and the Middle East, is, in fact, so far as we are concerned, the one positive and solid result of the War.

President Wilson, however, decreed that there were to be no "annexations." In Europe that was met by disregarding all annexations that could be justified on the basis of "self-determination," i.e. of linguistic nationalism, with a good margin for the victor in cases of doubt. Outside Europe another formula was required, and this was provided by the ingenuity and Roman Law training of General Smuts. His suggestion was that the more sordid connotation of annexation as involving exploitation of the transferred peoples, or disregard of their natural aspirations to self-government where feasible, could be avoided by a solemn undertaking on the part of their new rulers to govern them under "mandate," i.e. under a responsibility to civilization for the standard of government to be maintained. The League of Nations was the obvious authority whose approval should be sought for the terms of this pledge and for its fulfilment in practice. Such an undertaking which, in our case at any rate, involved no obligation which we were not already fulfilling in our adjoining colonies and protectorates, may have been an excellent thing in itself, as helping to set a standard of Colonial administration. But it has given rise, in this country in particular, to every kind of misconception. There is a widespread notion that the ultimate ownership of the Mandated Territories is in some sense vested in the League of Nations, and that the governing Powers are tenants whose tenancy may be forfeited by a failure to fulfil the terms of their mandate. There is an even more fantastic idea that Germany still retains some sort of dormant claim to her lost colonies which the League may one day recognize by restoring them.

The plain facts are that Germany surrendered her colonies, and surrendered them irrevocably, not to the League, but to the victorious Allies, who proceeded to divide them. The obligations which they subsequently undertook to the League in no way affected the surrender and partition of these territories. They are obligations upon the Powers



concerned, differing in no essential respect from the obligations incurred by them in connexion with the Convention of St. Germain, or with any other treaty deposited with the League. They are in no sense conditions of tenure. If we imposed a preferential tariff in Tanganyika and Kenya to-morrow we should be violating our obligations in the one case under the Mandate, in the other under the Convention of St. Germain. Those whose interests were prejudiced might complain to the League or try to secure damages through the Hague Court. But our right to remain in Tanganyika would be as unaffected as in Kenya. We are in Tanganyika by plain right of conquest and formal surrender, and shall remain there until someone stronger than ourselves takes it from us.<sup>1</sup>

Is Germany then to be for ever denied a Colonial Empire? The question is best answered by another: are Poland, Czechoslovakia, Austria, Yugoslavia, and all the other European members of the League, to be denied a Colonial Empire? Their theoretical claim is just as good as Germany's. Those who want such an Empire must win it for themselves. But there are other ways of winning empire to-day than by war. There is the alternative of co-operation. If Germany and her Central European neighbours need secure access to tropical sources of supply and to a non-competitive export market, there are other countries like Holland, Belgium, and Portugal with colonial empires whose produce they cannot possibly absorb themselves, and whose need, whether for finished goods for consumption, or for capital for development, they cannot adequately supply. Germany's real answer to the loss of her first Colonial Empire is to come to an agreement with one or more of these countries by which she would give a preference to the produce of their colonies and to the investment of German capital in those colonies, and receive in return corresponding advantages in them for her wares and for the commercial and organizing activities of her citizens.

<sup>1</sup> Japan has recently made it quite clear that her departure from the League of Nations can, in no way, affect her right to continue in occupation of her mandated island possessions. On the other hand, she has announced her intention of continuing to carry out her mandatory obligations, even to the extent of still presenting an annual report to the League's Mandatory Commission.

Such a series of bilateral agreements between the colonial and non-colonial European states, developing side by side with the extension of mutual preference among themselves, and aiming eventually at an economic-political union of most of Central and Western Europe with its Colonial dependencies, offers a far better solution of the Colonial problem than the internationalist system envisaged in the Convention of St. Germain or in the Mandates. It is such a solution that we should endeavour to promote, not only as the natural concomitant of our own effort to get rid of the treaty obstacles to the development of our own Colonial Empire, but as an essential element in the process of world consolidation and pacification. For us, in any case, it must be a major object of our external policy, political and economic, to free our Colonial Empire from these hampering restrictions, and enable us to develop it, on our own lines, as an integral part in the whole Imperial fabric.

## II. THE ADMINISTRATIVE AND POLITICAL STRUCTURE

The structure of the Colonial Empire itself is bound to undergo great transformation, administrative and constitutional, as well as economic. In no area is that transformation likely to be more rapid and far-reaching than in Eastern Africa. The dominant, and increasingly dominant, factors there are the geographical continuity of East Africa with South Africa, and the fact that the white race and a white civilization are permanently established at the southern end of the continent. Beginning with a little settlement round Table Bay, they have steadily spread northwards, the Dutch element at one time, the English at another, supplying the pioneering impulse. That process is bound to continue as mineral and other developments lead to the linking up of road and railway systems and to the multiplication of air services and the increase of private flying, and as science extends the area where white men can not only live healthily but bring up healthy children. The native element will no doubt always be larger in proportion, and occupy a larger part of the economic, and ultimately of the political field, as the continuous high tableland which

extends through Northern Rhodesia breaks up into the isolated highland patches of Tanganyika and Kenya, and with the greater unsuitability to white settlement of climatic conditions in the lower-lying equatorial areas. But no plans for the ultimate future of East Africa will be soundly based that do not face the fact that in the course of the next century there will be a more or less continuous white population from the Cape to the borders of Abyssinia, forming, in all probability, part of a single political entity.

Throughout that area the white man will inevitably be the directing and governing element, for any future, at any rate, that we can envisage. The supremely important question, however, is what place is to be occupied in the scheme by the native African? The problem is not a wholly new one. It was solved over most of the North American Continent and of Australia by the simple process of dispossessing scanty native populations incapable of adapting themselves to a new social and economic system, or even of surviving in face of it. In North America, however, eagerness for immediate economic development brought in a new and far greater problem by the importation of a prolific African slave population into the warmer regions where the northern European, at any rate, found manual labour exhausting, a problem which Australia has staved off by leaving much of her territory derelict for the time being. In Central and South America the Spaniards and Portuguese have solved it in a very different fashion by becoming largely absorbed into the more numerous native and imported slave populations. In the Union of South Africa it has been solved, so far, by a policy of separation and subordination, the native community being kept strictly separate, confined to the lower grades of manual labour, and denied (save precariously in Cape Province) any political rights.

Which, if any, of these solutions affords any guidance for African conditions? The experience of South America is not altogether encouraging to the solution of racial intermixture, even if it were not opposed to all our instincts and traditions. The Australian solution is precluded by climate over the greater part of East Africa, as well as by the comparative

density of the existing population and by the inherent capacity of the native African to lend himself, both as a worker and as an independent cultivator, to the task of economic development. The South African solution, destined sooner or later to break down in the Union itself, could hardly hold the field in areas where the white element must always be far smaller and the field of native activities wider, even if it were not directly inconsistent with the doctrine of trusteeship as professed by this country. That doctrine does not mean, as some of its exaggerated advocates assert, that the native, and the native alone, has any real rights or claim to our consideration in any region which he was the first to inhabit. It does not mean that black vested interests must always outweigh all demands of progress in the interests of the territory as a whole, and enjoy a sanctity afforded to no ducal interests at home.

But it does mean, to quote the language of the Report of the Joint Select Committee on Closer Union: "not only the avoidance of direct injustice to the natives as individuals, but also the more positive obligation to afford the natives, as a race, both time and opportunity to develop their latent capacities and play such part as they may eventually prove capable of playing in the ultimate destiny of the country." It means the duty of sheltering the natives against the first impact of white economic competition, and more particularly, by preserving their rights in the land, of securing their economic freedom and preventing their degenerating into a semi-servile landless proletariat. That duty has been fulfilled, on the whole with fairness and even generosity, considering all the circumstances, by the British Government. The Morris Carter Report on Native Lands in Kenya embodies a settlement which gives the native population security and an assured status in their own country, and the fullest opportunity of participating in its general prosperity.

It is, of course, a wholly fallacious idea that the development of Africa by the presence of the white man, in any other capacity than that of government official or missionary, is opposed to native interests. On the contrary, the native gains as much, if not more, by actual contact as a worker,

with the white man's methods, as he can ever gain by mere schooling alone. On the other hand, it is equally fallacious to think, as the white settler is sometimes apt to think, that the one essential to the progress of the country is an unlimited supply of cheap native labour, with the minimum of restriction upon the conditions under which it is employed. The higher the standard of life of the native, the better his wages, the greater his intelligence, the sounder his health, by so much greater, in the long run, will be both his efficiency as a producer and his importance as a customer. The progress of a mixed community like that of East Africa can only be assured by aiming at the maximum development of all sections of the community; in other words, by the fullest recognition of the rights of each.

Such a "Dual Policy"—or, indeed, threefold policy, in so far as the rights and claims of Indians and Arabs also come into the picture—is not an easy one to carry out. To entrust its execution to a government of a democratic type, based on an electorate consisting of a handful of white settlers, would inevitably lead to a short-sighted over-emphasis of the settlers' immediate interests, to the detriment of future development, as well as to the prejudice of native rights. The situation would be made worse, not better, under present conditions at any rate, by merely enlarging the electorate so as to include the natives, lowering the standard of responsibility, and introducing a dangerous element of racial conflict. On the other hand, pure Colonial Office Government, controlled by a distant democracy, runs the risk of being theoretical and not practical, and of insisting, in the name of trusteeship for the natives, upon a restrictive policy from which, in the long run, both natives and settlers would suffer.

The answer to my mind lies, for the time being, in the maintenance of the present system of government by the representative of the Crown, under the direction of the Colonial Office, but with an increasingly close association with those whose practical experience in the work of economic development entitles their views to consideration. That answer I defined in the closing sentence of my despatch of 1927, as placing on record the view of His Majesty's

Government "that, while the responsibilities of trusteeship must for some considerable time rest mainly on the agents of the Imperial Government, they desire to associate more closely in this high and honourable task those who, as colonists or residents, have identified their interests with the prosperity of the country."

The essence of the policy, endorsed by the Joint Select Committee in 1931, lies in treating the settler community not merely as advocates of their own immediate interests, but as co-trustees for the welfare of the whole community, of whatever colour, and training them in an outlook which will fit them for the ultimate responsibility of exercising control over the destinies of their country. Nothing could be more fatal, in the long run, than a system which regards the Imperial authority as existing purely for the protection of native interests, which encourages the local white community to concern itself only with the advocacy of its own rights without regard for native welfare, and then suddenly, one day, hands over control to those who have never concerned themselves with the most important aspect of their new responsibilities, except from a narrow and selfish point of view.

Progress along these lines lies in a change, not so much in the actual constitution where, as in Kenya, the problem has already become acute, as in the attitude of government towards settlers and of settlers towards the government. As for constitutional development, which must come sooner or later, the most dangerous form, though the one most frequently demanded, is the creation of an irresponsible elected majority in the Legislature, leading, through increasing friction with the Imperial authorities and chronic deadlock, either to self-government under the least favourable auspices or to a revocation of rights and powers already granted. The best line of advance may well lie in getting away from the notion of the geographical electorate and the voter at large on to the idea of functional representation by self-governing bodies, representing special interests and occupations, and to an increasing association of such bodies with the work of the government. Such a development would also provide scope for progress in self-government

and in influence upon public affairs for members of the Indian and native communities, both on communal and on non-communal lines. It would also fit in more easily with progress in the development of the existing hopeful forms of native self-government by local or tribal councils, without involving the more dubious experiment of a complete division of Eastern Africa into white and black areas with entirely separate systems of government. There is surely room, if we are willing both to recognize the essential facts of the East African situation and to adopt some of the newer ideas on representation which are coming to the front, for devising some system which will afford a better and more even transition from the present stage of Imperial control towards the ultimate goal of truly responsible and stable self-government, than the rough-and-ready sequence of increasing elected representation, deadlock, and irresponsible responsibility which once was good enough for the simpler conditions of Canada or Australia.

Meanwhile constitutional advance, which, after all, is only a live question in Kenya, is of less urgency than the question of closer union between the three East African territories themselves. East Africa is one, as Carlyle said of the British Isles, on the ground plan of the universe. For purposes of planned economic development, whether of harbours, railways, roads or air services, of tariffs and posts, of agricultural or medical research, it can only be efficiently dealt with as a single whole, not in watertight compartments by governments inspired by purely local views. These natural reasons for federation, or even complete unification, are certainly not diminished by the fact that Tanganyika has only recently been added to the British Empire, and still contains a large element of German planters.

For some inscrutable reason, mainly a kind of anti-British complex arising out of the muddle-headed internationalism of post-War years, doubts have been cast upon our right to do this, or even upon the permanency of our occupation of Tanganyika under the terms of our Mandate. But the Mandate, as I have said already, is not a tenure from the League of Nations. It is only an undertaking on our part towards the League as to the lines on which we

have decided to govern one of the territories surrendered for good and all by Germany, and divided, equally for good and all, by the Allied and Associated Powers. Beyond that undertaking we have no obligations towards the League and are free to do anything we like. At the same time, in order to make our inherent right even more explicit, the following clause was actually inserted in the Tanganyika Mandate by Lord Milner:

"The Mandatory shall be authorized to constitute the territory into a customs, fiscal, or administrative union or federation with the adjacent territories under his own sovereignty or control, provided always that the measures adopted to that end do not infringe the provisions of the mandate."

Nothing could well be more explicit than this clause. Its object—as I think I should know, having both suggested its insertion and its actual wording—was to prepare for an immediate complete amalgamation of the three territories. For one reason or another, however, action was postponed in the actual press of urgent post-War administration, and the matter remained in abeyance until I sent out the Hilton Young Commission in 1927. Unfortunately, the Commission's report, admirable and comprehensive as it was, embodied detailed conclusions which put in the forefront, not the urgent and feasible economic union of the territories, but the much more theoretical and disputable aim of unifying native policy. To convert these into a workable and acceptable plan I sent out, early in 1929, Sir Samuel Wilson, the Permanent Under-Secretary of State, whose tact and ability succeeded, in a few weeks, in arriving at a generally agreed scheme of economic federation. Before it could be applied a Socialist Government came into office and not only suspended the project, but, by the injudicious tone of a subsequent White Paper, created a general distrust of closer union under Colonial Office auspices, which was still so strong in 1931 that the Select Committee relegated the question to an indefinite future, contenting itself with advocating closer co-operation under the aegis of a periodical Governor's Conference. I do not gather that that system is really working effectively, and cannot doubt but that Closer



Union, more or less on the lines agreed by Sir Samuel Wilson, will before long have to be seriously faced.

Behind the question of East African Union lies the even bigger question of the ultimate political destiny of the whole block of territories between the Cape and the Upper Nile. The development of communications and of commercial and financial intercourse is bound to draw them closer together. The real problem is not one of maintaining watertight compartments, but of establishing the true lines of subdivision, the most natural articulation, for the British Africa of the future. There are really only two main lines of solution. One is a division of the whole area into two: the Union, on the one hand, extending northwards to include Southern Rhodesia and the western tableland of Northern Rhodesia along the railway to the Congo border; East Africa, on the other hand, extending southwards to include North-Eastern Rhodesia and Nyasaland. The other lies in the building up, between the present borders of the Union and Tanganyika, of a South Central African Dominion including Nyasaland with the two Rhodesias.

The latter solution, to my mind, corresponds, on the whole, more closely to the underlying differences of economic conditions and of political and administrative traditions. The proposed Greater Rhodesia would have a very definite character of its own, distinguishing it both from the Union to the South and from East Africa to the North. On the fundamental issue of white and native policy it would stand between the two. The white element is too small to make the Union native policy feasible, even if the British tradition, rather than the Dutch, had not already exercised a stronger influence over the whole area. On the other hand, the white population is not only already larger, but destined to grow much more rapidly than that of East Africa. Southern Rhodesia, with a white population of some fifty thousand, already enjoys responsible self-government, and the whole area will be ready for some form of it, and on more or less conventional lines, long before East Africa. Another factor in favour of this solution is the desire of the existing settler population in the two Rhodesias to develop, in other respects, on distinctively British and English speaking,

rather than on Afrikander and bilingual lines. From the economic point of view, too, Southern Central Africa will long be mainly a producer of minerals and other primary products, and would not benefit by the more actively protectionist industrial policy which the Union will naturally tend to follow.

Such a threefold division, with a Greater Rhodesia furnishing an intermediate link between the widely varying circumstances and traditions of the Union and of East Africa, is more likely to lead to some ultimate Greater African federation or association, than the sharper cleavage which would arise if the present Union and East African systems extended until they confronted each other directly. The dream of a wider Dominion of British African States seems, to me at any rate, not an undesirable one, or one unworthy of being envisaged as a goal, however remote, by both British and South African statesmanship.

A difficult problem is presented by the South African Protectorates. Their geographical situation and economic interests clearly indicate incorporation in the Union as their ultimate goal, except, perhaps, as regards the northern half of Bechuanaland which might more suitably be attached to Rhodesia. On the other hand, our treaty obligations to the native chiefs, and trusteeship for the native populations, preclude our simply transferring them against their wishes, without better safeguards than are furnished by the relevant clauses in the Union Constitution providing for their administration, in the still somewhat uncertain state of Union native policy, and in their present undeveloped and impoverished condition. What would seem to be required—and has been agreed upon since this passage was first penned—is a progressive policy of development jointly agreed between the United Kingdom and Union Governments, and assisted by both, leading up over a period of years to the successive transfer of these territories under a régime involving the minimum of dislocation, and effectively guaranteed by the settled trend of Union native policy as well as by the specific pledges of the Union Government.

British West Africa presents none of the difficult problems arising from a settled white population. In the system

of indirect government which has been built up in Nigeria, largely under the original inspiration of Lord Lugard, we have embarked upon an immensely interesting and hopeful experiment, which, by preserving a tradition of responsibility and self-government among the natives, may save us from many of the difficulties which we have created for ourselves in India. We have no right to delude ourselves with the idea that the African, any more than the Indian, will remain permanently unchanged in his outlook or for ever acquiescent in our direct control. But we can at any rate hope that the course we are pursuing will help to give reasonable continuity and stability to the constitutional evolution which will, sooner or later, follow upon the present phase of administrative and economic development.

The indirect system, indeed, should always be regarded as a means, and not as an end in itself. There is an exaggeration of it which would wish to preserve a native territory as a sort of Whipsnade, an enclosure in which the native is to be sheltered from all direct contact with white civilization and kept unchanged in all his ways. The South African Protectorates have suffered to some extent from this weakness. A kindred exaggeration of a sound desire to encourage the native to think in his own natural medium is the discouragement, in many parts of British Africa, of English in favour of some "native" language like Swahili, which is just as foreign as English to most of the natives who have to learn it, and much less fitted to be the vehicle of those British ideas and of that British culture which, after all, it is our main object to instil. In this connexion it is worth remembering that English, especially in such a scientifically simplified form as that known as "Basic English," is essentially an easy language.

Across the Atlantic from West Africa lies our oldest group of oversea possessions, the West Indian and Caribbean Colonies, once of vital strategic significance, as well as our most important source of tropical produce. Their relative importance in both these respects has greatly declined. But they are still susceptible of great development as a prosperous, happy, and loyal element in the Britannic family. The main problem there is economic, especially in

such an almost untouched territory as British Guiana. But there is an administrative and political problem, arising out of the smallness of the different units and the wide distances that separate them, which has proved insoluble in the past, but for which aviation and wireless should provide a solution in the future by making possible the federation or unification of the main chain of islands.

More interesting, as a problem of Imperial relationship, is the problem of the future connexion between the West Indies and Canada. Of all the great Dominions Canada alone includes no tropical or subtropical territory, and no dependent coloured population, either in her confines or under her control. And yet, as the most highly developed industrially, as well as the most populous, she has a greater need than any of the others both for the raw materials and foodstuffs, and for the markets, which the tropics can provide. More than any other member of the Commonwealth, save this country alone, does she need an economic empire to complement her own resources. In one sense that empire is already hers, as a partner in the Commonwealth, to develop to whatever extent she may choose. She has already been a pioneer in developing mutual preference with the West Indies and there is no limit, with the extension of the system of Empire Preference, to the part she may play in the development of the whole tropical Empire, and especially, perhaps, of the West Indies and West Africa.

It has, indeed, sometimes been suggested that Canada might undertake a more direct Imperial responsibility by taking over from this country the political control of the whole West Atlantic group of Colonies. There are considerable practical difficulties in the way of such a project. The Colonies would not welcome a mere transfer from Downing Street to Ottawa control, unless it were accompanied by a rise in status and an increase of power to influence their own destinies such as would be involved in their inclusion, as provinces, in the Dominion. On the other hand, Canada is not likely to welcome, under present conditions at least, the addition of representatives of a mainly coloured electorate of some two million people to her many other unsolved problems, or the task of finding

and training the requisite administrative personnel which is at present furnished by the British Colonial Service. The simplest solution would seem to lie in closer association and consultation between Canada and the Colonial Office. As Canada's interests in the West Indies expand it might, perhaps, eventually lead to the establishment of a Canadian High Commissioner in the West Indies, to represent Canadian interests to a future British Governor-General, and of a West Indies High Commissioner at Ottawa.

A somewhat different problem is provided in the Pacific where the political control of a number of rich and undeveloped island territories, including the greater half of New Guinea, is divided between the Colonial Office, the Australian Commonwealth, and New Zealand. Administratively and economically there is much to be said for a single system of government for the whole of this island region. Unification under an Anglo-Australian-New Zealand Joint Commission has been suggested, and, in spite of the discouraging precedent of the Anglo-French condominium in the New Hebrides, might be made workable. A more modest and practical step, meanwhile, would be the convening of periodical conferences of the officers of the three separate Colonial services for the discussion of common problems.

Much greater issues are raised when we come to those regions both of nearer and remoter Asia, which, alike from the political and from the strategic point of view, are linked up with India, and form, as it were, the periphery of the Indian problem. To South and East Ceylon and Malaya, including in the latter term our possessions in Borneo, are already of immense economic importance, while Singapore is the pivot of our whole naval position in the Pacific and Indian Oceans. Politically, Ceylon has already been profoundly affected by the nationalist movement in India, and has been recently endowed with a constitution of whose intrinsic merits or defects it is yet too early to judge, but which, if successful, may afford a useful precedent elsewhere. The leading place, however, in this South Eastern Asiatic group may possibly fall to Burma once it is separated from its present purely artificial association with India.

## III. NEW PROBLEMS OF EMPIRE

Most interesting of all are the problems presented by India's inner guard, the Near Eastern region which, in one direction, links her to the Mediterranean and preserves her contact with British sea and air power, and, in another direction, stands between her and the southward advance of Russia. In this region actual Colonial Office control is confined to Palestine, Trans-Jordan, and the Aden Protectorate, our relations with Egypt, Iraq, Saudi Arabia, Persia, and Afghanistan being dealt with by the Foreign Office, while Muscat and South Eastern Arabia fall within the sphere of the India Office. But the whole region forms a single political and strategic problem, perhaps the most important of any to which our policy can direct itself in the near future. It is in substance, for no explicit definition has ever been given, the "region adjoining our communications to India," in respect of which, in signing the Kellogg Pact, we have made a reservation analogous to the American reservation of the Monroe Doctrine.

The key position of this whole region is Palestine, which covers the Suez Canal from the North, and from which start the air route and future railway route from the Mediterranean to India. Here we have embarked upon an experiment, the most original, and yet, I believe, one of the most hopeful, to which even we have ever set our hands. This is not the place to discuss all that Zionism means to the Jews as a people scattered throughout the world, or what effect it may have in mitigating the consequences of the wave of anti-Semitism at present sweeping through Central Europe. What matters to us as an Empire is that, at this key point, we have introduced under our auspices—and if we are faithful to our pledges as an ally—a potent material, intellectual, and moral force which can contribute enormously to the regeneration, not only of Palestine itself, but of the whole Middle East; a force Western in its political, social, and scientific outlook, yet with enough of Eastern temperament and tradition surviving in it across the centuries to make it the natural vector of European civilization to the peoples of its ancient homelands.

The initiation of the Zionist experiment has been no easy task. It has had to face the passionate resentment of Arab political nationalism, jealous of its hold over even one small corner of the widespread regions of Arab speech. It has had to face the impatience of the Jews, and an exaggerated Jewish nationalism in a certain section which dreams of converting Palestine into a Jewish state on European nationalist lines, and cannot yet understand the British conception—the only conception really possible in lands of mixed race and religion—of a territorial patriotism based on mutual tolerance. It has sometimes encountered, as British settlement has done in East Africa, a certain lack of sympathy from officialdom, begotten of a blend of natural conservatism, sympathy for the weaker native population, and instinctive resentment of the intrusion of a less deferential and less tractable outside element. For a time, at least, it was also subject to misgivings and oscillations of policy at home. For all that the experiment has made remarkable progress. An influx, over the last twelve years or so, of some £50,000,000 of Jewish capital, and of nearly 200,000 active and enthusiastic immigrants, into a country barely the size of Wales, has made it one of the most prosperous communities in the world. While almost every government, within and without the confines of the Empire, is struggling with deficits in spite of increasing taxation, Palestine remits taxation and piles up increasing surpluses. The Arab population has shared in this prosperity, both through the general diffusion of money and through government expenditure for its benefit which only Jewish immigration has made possible. Haifa already bids fair, as the terminal of the Iraq pipe line and as the gateway to the Middle East, to become not only one of the leading ports in the whole Mediterranean, but also the industrial centre of the Near East. The moral as well as the strategical significance of these developments is incalculable.

The growing importance of Palestine may, perhaps, one day overshadow, but can never supersede, the vital interest which, because of the Suez Canal and the river and air route to East and South Africa, we must always retain in the affairs of Egypt. The regeneration of Egypt in the

thirty years before the Great War is an achievement of which Englishmen have every reason to feel proud and for which Egyptians, some day, may yet feel grateful. But our position in Egypt, since the War, has been weakened and undermined by our own complete uncertainty of purpose not only as to the immediate policy to be pursued in face of an intense Egyptian nationalism, but even as to our ultimate objective. And yet the objective should be susceptible of clear statement to ourselves, to Egypt, and to the world. Historical and geographical reasons make it out of the question that Egypt should ever be outside the orbit of the British political and strategic system, outside the British Empire in the wider sense of the world. On the other hand, there is nothing in our British Imperial system, as it is developing to-day, to preclude the intimate, permanent association with it of an independent, self-governing nation; nothing, equally, to make such an association other than an enhancement of status, as well as a material interest to such a nation. It is our task, by equal good will and firmness, to convince Egypt of this double aspect of the situation, and to win her to the conclusion that the maximum for her, alike of real independence and of security, lies in the circle of the nations of the British Commonwealth.

We are, indeed, groping towards a new feature of our Imperial system, for which there is no parallel, except, perhaps, on a smaller scale, the development by which the Indian States, without loss of their independence, once came within the general orbit of our Indian Empire. That is the tendency towards an enlargement of the Commonwealth by accretion, through permanent alliance, of nations whose interests, in the closer organization of the world, will increasingly compel them to identify themselves with one group or another. What applies to Egypt in this respect applies equally to Iraq which lies across our main air and future railway route to India, and where we followed military conquest by a task of reconstruction and regeneration no less successful than that which we carried out in Egypt. Happily, however, in Iraq the intimate collaboration between the wise statesmanship of the late King Faisal and a succession of British High Commissioners and British



officials who from the outset sympathized with the natural aspirations of those with whom they worked, enabled the transition from initial tutelage to equal co-operation to be effected with far less friction or difficulty. Our alliance with Iraq to-day is based not only on a firm recognition of mutual interest, but on memories of comradeship in war and fruitful co-operation in the years of reconstruction.

Circumstances may yet enlarge the Near Eastern system of alliances yet further. Be that as it may, what is essential is to convince those nations which, like Egypt or Iraq, may come into association with the British Empire, that such association is not only profitable but honourable. We must get away from the attitude which at one moment assumes that the only goal of a truly self-respecting nation must be a completely detached independence, and in the next breath apologetically insists that our strategic or other interests compel us to deny what we profess to regard as a natural and proper aspiration. For the oscillation between a narrowly self-regarding and often arrogant Imperialist outlook and the sentimental internationalism of recent years we must substitute a continuous policy of conversion and persuasion based on a frank recognition of mutual interest and on faith in the ideals of our comprehensive Commonwealth.

Such a policy must include economic co-operation in peace as well as a support against external dangers. We must offer our new allies advantages in our markets, and in access to British finance, which we do not offer to those whose association we value less highly. Here, again, there can be no progress until we can get rid of the paralysing fetters of the Most Favoured Nation Clause in our commercial treaties, and are free to give our economic preferences in accordance with our political preferences and interests. Even more important, we must show to those who enjoy the material advantages of alliance with us that we regard their position as higher and more honourable than that of nations outside the Britannic circle. We must in some form or other bring them into consultation with us. If we eventually admit them to the discussions of an Imperial Conference, we must make it clear that we regard that as a

privilege on a very different plane to mere membership of the League of Nations. We must act whole-heartedly upon the conviction that association with our Commonwealth is, on our part, a privilege which we confer, and on theirs an act of friendship which we appreciate.

Not only the allied government, but its citizens individually, must feel that their status has risen by such an association. They should be given privileges, in the way, for instance, of greater facilities for *de facto* naturalization, while retaining their own citizenship, than are accorded to ordinary foreigners. The idea of mutual citizenship, indeed, which, together with that of mutual economic preference and political co-operation, underlies the modern conception of Empire, is one which should be capable of extension to assist the natural growth of the Imperial system. It may even some day be used to strengthen the foundations of mutual intercourse and understanding between that system and the kindred peace-loving system of the United States.

Meanwhile, there are certain other countries, nearer home, to which the conception of an association of intimate mutual interest and mutual privilege may appeal, even more, perhaps, than to those nations of the Near East whom circumstances rather than racial or cultural affinity has brought within the orbit of the British system. Of all the peoples of Europe none are more closely akin to us in race, in political outlook, in their social life, and economic standards than the citizens of the three Scandinavian kingdoms. Danes, Swedes, and Norwegians are more at home here or in any British Dominion than foreigners of any other race, and nowhere in Scandinavia does an Englishman really feel himself a stranger. Scandinavians not only make admirable settlers everywhere in the Empire—even English agriculture might be none the worse for a good infusion of immigrant Danish farmers—but good citizens. Their countries are closely connected with us in trade, and that intercourse has been fortified of recent years by trade treaties and by their decision to attach themselves, in currency matters, to the “sterling convoy.”

If, as the nations of Europe tend to group themselves together, these kinsfolk of ours should come to the con-

clusion that their interests and their affinities lay less with the Continent to which they are so slenderly attached geographically, than with the British Commonwealth—if they should wish to renew the historic link which but for Harold's victory at Stamford Bridge, or Harold's defeat at Hastings, might never have been broken—why should we not welcome them? Whatever the measure and degree of co-operation, whether economic, defensive, or even more intimate constitutionally, which might, on both sides, be acceptable, our elastic system can find room for it. We need be no devotees of crudely exaggerated Nordic theories to be glad to receive such an accession of virile, freedom-loving manhood to the ranks of those upon whom the task of Empire building and Empire leading must still, in the main, rest. Their defence, as against Europe, would require no more in increased obligation to ourselves than their support would add to our general security. Geographically, too, and from the point of view of future developments, it would be of no detriment that Iceland and Greenland, the natural stepping-stones to Northern and Western Canada, should come within the wider orbit of the Commonwealth.

The dream of an expansion of our Imperial system which will link Canada with Britain and Scandinavia across the North Atlantic, and Africa with India and Australia across the ancient realms of the Near East, bringing to us a new vitalizing impulse on the one hand, and new problems and opportunities for constructive statesmanship on the other, may seem fanciful. There is nothing in it more fanciful than the actual developments, geographical or constitutional, of the Empire in the last fifty years. It is certainly not half so fanciful as the dream of a mechanical World League with which we have been deluding ourselves for the last fifteen years. It is sufficiently based on solid facts of geography, of strategy, of commerce, on common interests, and common affinities, to be within the realm of possibility, if in the course of the next generation our purpose is bent towards its achievement.

No one can say what course the ultimate world synthesis may take. It may be that in course of time the conceptions upon which the League of Nations has been based may

correspond more closely with the stage of development then reached, and that a small number of nation groups may eventually join together to form a real World State by some deliberate act of federation. Or it may be that world union may come by successive adhesion to some one group whose structure and spirit render it more capable of adapting itself to new world conditions than any of its competitors. Our task is to work for the unity and strength of the British Empire, to maintain its vitality, the comprehensive elasticity of its organization, and the breadth and boldness of its outlook, so that it may be equally fitted, as the world shapes itself, to give the lead in promoting the eventual scheme of world union, or to provide the nucleus which may gradually expand to include all mankind.

## CHAPTER V

### OF FOREIGN POLICY

FOREIGN Policy and Defence are, at bottom, different aspects of a single problem, the problem of securing our territories and our trade from forcible interference by other Powers. Each is conditioned by the same elementary circumstances of geography or economic development. Each merges almost insensibly into the other. Prudent diplomacy can do much to avert war. But it can only do so if it has a reasonable measure of armed strength behind it. To suggest that a skilful foreign policy can take the place of adequate provision for defence is like suggesting that, in private life, a tactful use of one's cheque book can enable one to dispense with a credit at one's bankers. On the contrary, a nation's fighting power is an element which, never mentioned, but always clearly appreciated, forms the underlying basis of every diplomatic discussion. The money and effort spent on military security correspond not so much to an insurance whose value only becomes apparent when the failure of policy has led to war, as to the reserve, in gold or other assets, of the Bank of England, stored away in its vaults against some great emergency, but meanwhile in daily use through its note circulation. Skilful foreign policy can make the fullest use of this asset. It can avoid quarrels or win allies. It can foresee the occasions of war and aim at preventing them, or at least of seeing that war, if it does come, should come under the most favourable moral and military conditions. But the success with which it conducts its business depends, throughout, on the assumption of its ultimate solvency in terms of fighting strength.

Solvency, for an Empire like ours, scattered all over the surface of the globe, means first and above all sea-power. The maintenance of our naval superiority as against any Power or Powers with whom we can contemplate the possibility of war, must be the starting-point of our foreign policy, just as one of the chief preoccupations of that policy

must be to prevent any naval coalition against ourselves which would set an impossible task to the Navy or to our finances. That task has not become easier with the years. Nor, indeed, has the whole problem of our security. An Empire which, in the years of our unchallenged supremacy after Trafalgar, grew up in a haphazard and sporadic fashion over the face of the earth, far removed from the noise of warring nations, and without thought of the morrow, finds itself to-day in close proximity everywhere to formidable neighbours, while at home the once inviolate girdle of the narrow seas affords no shelter against the growing menace from the clouds. Only a peaceful and conciliatory policy avoiding all unnecessary causes of quarrel, only a prudent policy abstaining from all unnecessary commitments, only a firm and consistent policy which leaves no misunderstanding as to where we stand, and what we are prepared to fight for—only such a policy can see us through the difficult and anxious years which lie ahead—and then only if backed by the requisite minimum of defensive strength.

It is to such a policy that we must now revert. For fifteen years we have been occupied, partly in clearing up the post-War European situation and keeping ourselves quite unnecessarily tangled up in it; partly in chasing the delusion that some world-wide "collective system of peace" could be built up on the flimsy foundation of the League of Nations. To strengthen the influence and authority of the League and to bring about the success of a Disarmament Conference held under its auspices, have been the main, almost the exclusive, preoccupation of the British Foreign Office during these years. The collapse of the League over Manchuria, the long-drawn-out demise of the still-born Disarmament Conference, and now, above all, the Abyssinian crisis, should at last have convinced British statesmen, and the able Civil Servants whom they control, that the time has gone by for dangerous commitments based on make-believe. Let us stop playing at building card houses, and attend to the serious and far from easy task of looking, first and foremost, after our own peace, and then making such practical contribution as we can to the peace of others.

This does not mean that we should abandon the League of Nations as an institution capable of rendering great service in promoting international understanding and solving many international problems. But it does mean that we should face the fact that the nations meet at Geneva, as at any other diplomatic conference, primarily to protect each its own interests and further its own aims, and not in order to promote a new mechanical scheme of world control. The more frankly that is recognized, the more honestly the whole pretence of a Geneva super-state or world authority is jettisoned by all concerned, and, above all, by ourselves who have, I fear, been the arch-offenders in the game of make-believe, the better for the prospects of peace and the better for the League itself. What is at fault, indeed, is not the League as an institution so much as the Covenant with its sham federal constitution and unenforceable powers of coercion. The time has come for such a revision of the Covenant as will get rid of all those clauses (more particularly 10 and 16) which give an encouragement to the super-state theory of the League, and will make it clear beyond doubt that it is only a standing conference and secretariat available for all who wish to make use of it for the improvement of international intercourse; a valuable complement, but not an alternative, to the normal work of diplomacy. Such a League, involving no commitment on the part of any Power taking part in its deliberations, or utilizing its machinery, might secure, not only the return of the Great Powers that have left Geneva, but also the adhesion of the United States, and thus become a really universal body. At the same time the clearing up of the situation would facilitate the creation of narrower leagues, with more definite obligations, for definite groups of nations.

For us, at any rate, the foundation of our foreign policy must be our own League of the Nations of the Empire. From start to finish it must be a policy concerned with the interests of every part of the Empire and such as can commend itself to public opinion in every part. At every stage of any course of policy upon which a British Foreign Secretary embarks he must ask himself the question:

"How will this appeal to Canada? how will it help Australia? how will it effect the problem of India's security?" This means that our policy must be simple and intelligible, and primarily concerned with direct and obvious Imperial interests. We cannot afford ingenious far-fetched policies: whether Machiavellian or idealistic makes no difference. In neither case will the rest of the Empire support them or see them through. The unwillingness of the Dominions to ratify the Locarno Treaty—though they subsequently, in 1926, gave it a general blessing—is an indication of the danger of going too far with policies whose advantage is not self-evident to the Empire as a whole.

If it is essential that our foreign policy should be such as can commend itself to the Empire, it is no less essential that we should spare no effort to secure the fullest communication and consultation between the Governments of the Commonwealth while our policy is in course of shaping itself. For this purpose alone, if for no other, the Imperial Conference should be held annually and be attended by such Ministers as the various governments can afford to send. Far more use, too, should be made, in the interval, of the services of the Dominion High Commissioners in London and of the British High Commissioners in the Dominions. The British Foreign Secretary naturally meets the Dominion High Commissioners in Empire delegation and individually, to discuss affairs when they are all at Geneva. There is no reason why the same intercourse should not take place more regularly in London. As for the British High Commissioners in the Dominions, their position is one of the most important in the whole public service; far more important—I say so unhesitatingly—than that of ambassadors at most European capitals.

The question may be asked, how far can the separate diplomatic representation of the Dominions, and of foreign countries in the Dominions, be reconciled with any unity of Empire foreign policy? It is obvious that the system contains in itself the seeds of possible differences of view between Empire representatives in the same country which may be reflected in disagreement between their governments. But normally the various Empire diplomatic col-



leagues in any capital (like the Empire delegates at Geneva) will tend to work together and to take the same view. If they do, then the influence of that view, transmitted by its own representative to a Dominion Government and justified to Parliament on the strength of that representative's report, will be far more effective than the same view transmitted from the Foreign Office. Separate diplomatic representation is a natural consequence of the existence of separate and co-equal Governments and Parliaments. On the whole I believe it makes for closer Empire co-operation, or can be made to do so, if all concerned are alive to the necessity of keeping in close touch, and are inspired by the consciousness that while they work in independence they are all colleagues in a common task.

If Empire concurrence is the first foundation of our foreign policy, there are also certain further factors of a permanent character by which it must be influenced throughout. By far the most important of these is our relationship to the United States. It is a relationship based on a common language, common traditions, a common love of liberty and of peace. It is emphasized in the four thousand miles of undefended frontier which separate us, in Canada, from our American neighbours. Underlying it is the knowledge that a war between us, whatever its outcome—and it would be a war to the death—would be an almost inconceivable disaster to humanity. Underlying it equally is the faith that our co-operation can do more than anything else to promote the peace of the world. To work with the United States where we can, and in any case to refuse to be drawn into any policy or combination which could bring us into conflict with them, must be a cardinal point in our foreign policy.

This does not mean that we should aim at anything in the nature of an alliance. On the contrary, I believe that the more informal our friendship, the more free of all restrictive provisions, the more effective will it be in fact. Here again, as in our relation to the Dominions, it is the simplicity and straightforwardness of our policy, and the degree of contact which we can establish with American public opinion, that are the vital things. To commend our

general foreign policy to the American public should, indeed, be a major object of our policy. On the other hand, nothing can be worse for Anglo-American relations than a mere weak truckling to America where some disagreement arises, above all where a British Dominion is concerned. America should always understand that Canada's cause is Britain's cause, and that Britain will always go to any length that Canada would wish her to go to defend it. Anglo-American friendship must be based on mutual respect. Americans will not respect us unless we stand up for our rights and those of our partners in the Empire.

On the other hand, they will not respect us if we try to evade our obligations. No sensible person can suggest that the payment in full, by transfer of gold or dollars, of the nominal amount of the munitions and other supplies originally purchased at fantastically exaggerated war prices, plus compound interest, would be either equitable or possible. Even the settlement made by Mr. Baldwin in 1923 was still based on ideas of free international trade and of the free flow of gold which the action of the rest of the world, and not least of America, proved to be mistaken. That does not alter the fact that there is a debt owing between us, and nothing could be worse, from the point of view of Anglo-American relations, or, indeed, of international relations generally, than that we should allow matters to drift indefinitely until we should come to think it intolerable to be asked to pay anything, and until America should be convinced that we were deliberate defaulters amenable to no argument but the "big stick." Some sort of fair settlement of this issue should be made without undue further delay. As for the debts owed us, there is no reason why we should not collect what we can. If we cannot get it in money we may be able to get something in kind, e.g. in freeing ourselves, as regards our debtors, from treaty obligations under the Most Favoured Nation Clause, or under the Mandates, which we may find inconvenient.

What applies to our relations to the United States applies also, in a measure, to any other relationship which we wish to be permanent. Such, for instance, as I have suggested in the last chapter, might be our relationship

to the Scandinavian countries. If it is our desire, as I believe it should be, to associate them more closely and permanently with ourselves, then our diplomatic relations with them at once concern a major object of policy, definitely transcending in importance our relations to countries like France or Germany or Italy which, by the nature of the case, must always stand outside our Commonwealth. Similar considerations might conceivably apply to our relations with Portugal, where ancient historic ties and future economic developments in Africa might some day lead Portuguese statesmen to prefer closer co-operation with the Commonwealth to joining a European grouping. In a somewhat different form they apply no less to those countries of the Near East which circumstances have brought, or may yet bring, into our sphere of strategic defence and economic development. The essential thing is to remember that all relationships which are destined to be permanent, to enlarge permanently our circle of co-operation, or to add to the strength of our defences, are intrinsically more important than the necessarily more fluctuating relationships with Powers outside our circle, and call for a peculiarly consistent and continuous attention from a British Foreign Secretary.

With these preliminary considerations clearly in view let us now turn to the actual problems of foreign policy as they are likely to confront us in the near future. They fall into three main groups: our relations to Europe; our relations to Japan and China; our relations to Soviet Russia, and to such Middle Eastern countries like Persia and Afghanistan as may be drawn into any conflict between Russia and ourselves. The least important of the three, in the long run, are our relations to Europe. But they have so completely obscured our horizon in recent years that it is necessary to give a possibly disproportionate space to dealing with them in order to restore Europe to its proper perspective as viewed from the standpoint of our world-wide Empire.

Our part in history has been, from time to time, to throw our weight in the scales of European affairs when—but only when—we have feared the unchecked domination in Europe of an aggressive Military and Naval Power which might turn that domination against ourselves. We

have been peculiarly sensitive to any such menace of a European supremacy if it threatened to include the direct control of the Low Countries. It was a policy conceived in relative weakness, and thanks to it we emerged successively stronger after our encounters with Philip of Spain, with Louis XIV, and with Napoleon. But our natural tendency has been to withdraw from European commitments as soon as the immediate danger has passed away. For nearly a century after Waterloo we pursued a policy of detachment from the internal affairs of the adjacent continent. To describe such a policy as one of isolation is an overstatement. We continued throughout, as one of the Great Powers in the Concert of Europe, to exercise our "moderating and mediating influence" in the cause of peace and of the adjustment of the European situation to the new developments brought about by the rising forces of Liberalism and nationalism. But we refused steadfastly to commit ourselves to any Continental alliance. We remained resolutely neutral throughout the series of wars that changed the map of Europe, even when, as in the case of the war over Schleswig-Holstein, our treaty obligations made abstention difficult and open to criticism. Our only war with a more or less European Power, the Crimean War, was fought not on any European issue, but from the fear that Russian domination of the Turkish Empire in Asia would endanger our position in India. It was the same motive which led us twenty years later to send the Fleet through the Dardanelles and stop the Russian armies at San Stefano.

Our policy in those days was summed up by Palmerston in words that have lost none of their force and good sense in the years between:

"I hold with respect to alliances that England is a Power sufficiently strong, sufficiently powerful to steer her own course, and not to tie herself as an unnecessary appendage to the policy of any other Government. I hold that the real policy of England—apart from questions which involve her own particular interests, political or commercial—is to be the champion of justice and right, pursuing that course with moderation and prudence, not becoming the Quixote of the world, but giving the weight of her moral sanction and support

wherever she thinks that wrong has been done. It is a narrow policy to suppose that this country or that is to be marked out as the eternal ally or the perpetual enemy of England. We have no eternal allies, and we have no perpetual enemies. Our interests are eternal and perpetual, and those interests it is our duty to follow."

I have described in the opening chapter of this book how, in face of the German menace to our existence as a Sea Power, we drifted into a progressive entanglement in European issues until one day we found ourselves at war over a murder in a Balkan townlet of whose existence nine Englishmen out of ten were unaware. I suggested also that there was, even then, an alternative policy, the policy of relying on our naval strength alone and upon the development of Empire resources and Empire co-operation to sustain that strength at whatever level might have been required. Whether that alternative was feasible or not thirty years ago it is obviously feasible to-day. For the time being, at any rate, there is no European Power which entertains, or can afford to entertain, the ambition to overwhelm us, at sea or in the air. France, the most formidable Air Power in Europe, is sufficiently engaged in maintaining her existing European position against the possibility of a German war of revenge, to dream of wantonly indulging in such schemes as once inspired Germany. Germany, in her turn, though once more formidable in arms, has, I believe, learnt enough to abandon her dreams of overseas Empire, and her aims, ambitious as they are, would seem to be confined to the expansion of Germany to south and east within the confines of Europe. Even Italy, the most unscrupulously ambitious of wider empire, and not unnaturally resentful of our attitude over Abyssinia, is not in a position to launch a war of aggression upon our position in the Mediterranean. The whole European situation is, in fact, one of natural balance in which no one element has a sufficient surplus of striking power to afford to be able to go to war with us. The only possibility of war would lie in such a defencelessness on our part as would make it possible to overwhelm us before others had recovered from the surprise. The natural answer to that is the maintenance of our Navy and of our Air Force

at a strength which would suffice to discourage such an adventure.

The balance is to-day one which can be left, as it was left during most of the nineteenth century, to maintain itself without our throwing our weight into any particular scale. In the course of the last year German policy has forced France and Italy to reconsider the attitude of mutual bickering and suspicion which has prejudiced their relations since the War. The Rome negotiations laid the foundations for a combination of these two Great Powers with their allied or client states into a single system covering the whole front from Brussels to Belgrade and Bucharest. The pivot of the whole system—the keystone of the arch—is the maintenance of Austrian independence. The subsequent London Proposals have aimed at enlarging this system into a general European scheme of peace, not only by bringing in Germany as a member of the “Danubian Pact,” but also by renewing Locarno in the more definite form of a mutually guaranteed Air Pact, and by inviting Germany to join in a similar Eastern Pact to include Russia. If Germany’s attitude, as manifested in her recent somewhat aggressive assertion of her right to rearm, makes these proposals abortive, then it will be for the members of the Franco-Italian League to see to it that they stand sufficiently close together and are strong enough to frustrate any German designs against them. Locarno or the Air Pact may be an additional assurance to France and Belgium against a purely unprovoked attack out of the blue. But apart from that, there is no reason why we should come into the picture. If, on the other hand, Germany, having once forcefully asserted her equality, is really prepared to come into a European system, then, obviously, that system will have no need of our support.

In any case, it is no essential part of our policy to foster a balance based on the rivalry of opposing groups of European Powers. If Europe can acquire a new equilibrium within herself on the basis of a policy of mutual economic co-operation and relative disarmament inspired by the conception of a common European patriotism, we should, I believe, be right in giving all the en-

couragement we can to so hopeful a development. It is perfectly true that a united Europe would possess resources which, if concentrated upon our destruction, would be very formidable. But the process of bringing about European unity is one that can only be achieved by a temper of toleration and compromise among the peoples and statesmen of Europe which will be far removed from the conception of purely aggressive warfare. Nor is that unity ever likely to reach a degree of centralization that would make it the effective instrument of Machiavellian designs. A European Commonwealth, like the British Commonwealth, would be naturally concerned with the peaceful cultivation of its own vast estate. As for causes of conflict, we have none in Europe itself, while the Colonies of Holland, Belgium, and France, and of Portugal, if she wishes to join the European system, are amply sufficient to make rivalry between the European and the British Colonial Empires unnecessary. On the other hand, in the face of a revival of aggressive ambitions on the part of Russia or of Japan, the two systems might find their interests naturally drawing them together.

The coming into being of a European Commonwealth, bringing the true spirit of peace and fruitful economic co-operation to our much vexed neighbour continent, is one which, so far from regarding it in a timid or ungenerous spirit, we should do all in our power to promote. The most practical and important contribution we can offer to that end is to make it clear that we shall not stand upon our rights under the Most Favoured Nation Clause as against any system of mutual economic preference that European nations may set up among themselves. We must not repeat the short-sighted selfishness which recently led us to veto the Ouchy Convention under which Belgium and Holland proposed the inauguration of a system of mutual preferential reduction of tariffs to each other and to such other European states as might be willing to join. We have, in fact, since then connived at very considerable infractions of our most favoured nation rights to enable Italy to assist Austria. It is, after all, largely, if not mainly, on the economic side that European union will come about by the progressive

enlargement of co-operating groups. More generally, indeed, we shall have to keep in mind that Foreign Policy and Economic Policy will be much more closely associated in the future than in the past. There will, no doubt, also be opportunities for helping in the more purely diplomatic sphere. To throw the weight of our support, for instance, as we have been doing, in favour of the independence of Austria as the possible nucleus of an economic grouping, primarily embracing the Danubian states, but capable of much wider enlargement, as against the expansion of a militarist anti-European Pan-Germanism, would clearly fall within the purview of the policy I advocate, without involving us in any general policy of European commitment. Nor, in so far as the future unity of Europe can only be based on freedom and toleration, should we be going outside the limits which we should set ourselves, if we showed a general sympathy for France, as the most typical embodiment both of freedom and of culture on the European continent, and as the natural leader in the effort towards European unity.

On the other hand, while showing clearly our good will towards any step that may further European Union, we must make it no less manifest that we cannot take any part in such a union ourselves. From our own point of view it is essential to remember that we belong to the Empire, a world-wide group with a foot in each continent, but not belonging to any of them. We cannot afford, if the Empire is to be kept together, to regard ourselves as more of a European Power than an American or Asiatic or African Power. Nor, in so far as any system of group union in the future is bound to be based on mutual economic and financial preference between its members, could we join a European system without breaking with the Empire system established at Ottawa, a system far more suited to our economic interests as well as to our political sentiments.

As a matter of fact, nothing could more retard the development of European unity than our participation in it. Our interests are too divergent from those of the Continental Powers. Our outlook on every political and economic problem is too different from theirs. We are, at bottom,



outsiders to the European family. Its members, when they quarrel, are, it is true, only too eager to appeal to us to side with them. But we win little gratitude for our intervention, and only prevent them settling their disputes among themselves. Last, but not least, our hearts can never be in such a union. An Englishman is not capable, as, in the last resort, both Frenchmen and Germans are, of becoming a patriotic European, devoting himself to the European idea, thrilling at the sight of a common European flag. If Europe is to achieve her unity, she must limit her membership to those who can belong to her heart and soul, who share her outlook and her interests. There may be marginal cases: it is for countries like those of the Scandinavian and Iberian peninsulas to decide whether they would adhere to a Continental European system or look for association elsewhere. They are, at any rate, capable of becoming good Europeans if they wish to do so. We are not.

The policy we should follow towards Europe can be summed up in a sentence: detachment from European affairs, subject only to the proviso, embodied in our Belgian and Locarno undertakings, that we will not look with unconcern upon purely aggressive military operations within short air range of Dover, and coupled with an attitude of helpful good will towards any effort made by the European nations to bring about their closer economic and political union. That is the only sensible policy on merits. But it is also the only policy which will be understood and supported by the Dominions, who look upon Europe as a "vortex of militarism"—to use Sir W. Laurier's favourite phrase—into which they do not wish to be dragged themselves. If we insist on being involved in it ourselves, we must take the consequences in an increasing dissociation of the Dominions from British Foreign Policy. Much the same applies to the United States, who look upon Europe with a profound suspicion, which is extended to us whenever we are believed to be colloquing with Continental states or in any way identifying ourselves with Europe. If we dread isolation, let us make sure, first and foremost, that we do not isolate ourselves from the rest of the Empire, and next that we do not isolate ourselves from America.

We are continually being told that such a policy of detachment from Europe is impossible because the experience of the last war has shown that wars cannot be limited, that we are bound to be drawn into any European war, and that this is becoming increasingly certain with the development of aviation and of every new scientific device for annihilating distance. The conclusion from these premisses is that we must either join in some collective machinery for preventing war, or definitely commit ourselves to one side or other in the European system; in both cases surrendering into the hands of others the decision whether we are to be allowed to remain at peace or not.

The doctrine of the inevitable contagion of war is, of course, pure nonsense. The whole history of the wars of the nineteenth century proves the opposite, and shows how anxious nations are to keep out of wars that do not immediately affect them, even if it means that an aggressor can deal with them one by one, as Bismarck dealt with Denmark, Austria, and France in succession. Even in the Great War no one participated in it who had not some very definite interest or ambition at stake. Russia was determined not to allow Austria to control the whole Balkans and subjugate her Serb kinsfolk. France wanted to recover Alsace-Lorraine. Italy wanted to annex the Italian-speaking provinces of Austria. Rumania wished to annex the Rumanian-speaking provinces of Hungary. Turkey feared—and not without reason—that a Russian victory would be followed by the seizure of Constantinople. Bulgaria wished for revenge and the recovery of lost territory. We feared Germany's ambition as made manifest by her naval policy and confirmed by the invasion of Belgium. America was drawn in, but only after three years, by the combined influences of her English-speaking sympathies and of commercial interests crudely challenged by the German submarine campaign. Only one country was forced into the War against its will, and that was Belgium, whose defences were so inadequate that the German General Staff reckoned that the convenience of using the Belgian roads for the invasion of France outweighed any resistance the Belgian Army could offer. There were other

roads hardly less convenient, on the German left flank, which remained untrodden by the German Armies, because they were not prepared to face the formidable resistance of the Swiss militia. Switzerland, surrounded by combatants on every side, stood unshakably on her neutrality. So did Holland, Scandinavia, and Spain. To suggest that we must be dragged into every European war, merely because it is a war in our neighbourhood, is a ridiculous misreading of the events of twenty years ago.

As for the developments of modern science, aviation has undoubtedly diminished the security we once enjoyed in this island, and consequently calls for adequate measures of aerial defence. But those measures would be required, to an equal if not greater extent, if we were to commit ourselves to a Continental alliance or to the Donnybrook Fair policy of joining in every scrap, which is the practical effect of what is called the collective maintenance of peace. Besides, if modern science has brought us closer to the Continent than we were in the nineteenth century, previous inventions had drawn us much closer to the Continent in that century than in preceding ones, a fact which did not prevent our taking up a much more detached attitude towards Continental affairs than before. Last, but not least, modern science has drawn us closer to the Empire as well as to Europe: in many respects much closer. At this moment all the Governments of the Empire can talk freely over the telephone with each other over thousands of miles, and can communicate by broadcast message to all its peoples. How many English statesmen are there who—apart from differences of mentality—are actually capable of understanding either a Frenchman's French or a Frenchman's English over the telephone from Paris? Or what proportion of the population of our European neighbours ever listen in to an English broadcast? It is those who are already predisposed towards closer union whom modern inventions are helping to bring together. That is the underlying principle on which the world is being reorganized. That is the principle which we must follow.

On the whole it may be said that our policy in regard to European affairs has been gradually moving in the right

direction. The process of disentanglement begun by the Locarno Treaty has been re-emphasized in the London Proposals, which have laid positive emphasis on the fact that, while we bless the proposed Danubian and Eastern agreements, we regard ourselves as entirely uncommitted in Europe outside the Locarno corner.<sup>1</sup> But there is still a great deal too much woolly talk in responsible places denouncing the impossibility of "isolation," and implying that we must continue indefinitely entangled in the complex of European rivalries. It is high time that someone in authority stated clearly and plainly, for all the world to understand, that we do not regard ourselves as one of the nations of Europe, have no intention of intervening in any European conflict that does not directly menace our interests, and are only anxious to leave to Europe the responsibility for settling her own affairs and shaping her own destiny, as we expect Europe to leave to us the responsibility for dealing with our own inter-Imperial relations. Both throughout the Empire, in America, and even in Europe, such a declaration would be hailed with relief.

Free from unnecessary European preoccupations, we shall have more leisure to concentrate our attention on the far more serious problems with which we may have to deal along the whole line of our Eastern front from Haifa to Shanghai. We have to face, first of all, in the Far East the double fact, on the one hand, of Japan's emergence as a Great Power, driven to expansion alike by her temper, her traditions, her military and organizing abilities, and her imperious economic necessities, and, on the other, of China's incapacity, so far, to form any stable or coherent government over the vast area which once was the Chinese Empire, and is still nominally described as the Chinese Republic. The situation has not been made easier by Japanese methods in connexion with the occupation of

<sup>1</sup> The proposed Air Pact, in one sense, only reaffirms Locarno in a practical form, for any unprovoked surprise attack would naturally take place by air and would have to be met by air, in the first instance, at any rate. But it definitely cuts out the League of Nations as concerned in deciding which is the aggressor, and leaves the matter to our own judgment. It also, for once, actually secures the benefits of a system of mutual guarantee for ourselves as well as for others. If concluded, it should help to keep the zone of European conflict at a distance from us.

Manchuria, by the somewhat strident Imperialism of many Japanese official utterances, or by the recent denunciation of the Washington Treaty. The demand for a naval parity which, in effect, would mean a complete Japanese domination, not only of the Far East, but of the whole Western Pacific, and even of the Indian Ocean, is, indeed, clearly unacceptable, and, if insisted upon, must lead to the breakdown of the naval negotiations and to a heavy increase in our own naval expenditure. For all that, there is in the general Far Eastern situation no intrinsic or fundamental ground of conflict between Japan and ourselves; none certainly that should not be susceptible of adjustment between us, provided that we deal directly with each other with mutual good will and reasonable statesmanship, and do not let our relations become the sport of political theorists bent on extending the imaginary Empire of Geneva.

There is, I believe, still existing in Japan a fund of good will towards this country as the first to welcome her as an equal and an ally into the comity of nations. We impaired that good will, to some extent, by the non-renewal of the Alliance in 1921. But we impaired it even more by the manner in which that step was taken and followed up. There was no reason, if actual alliance was a stumbling-block to Anglo-American understanding (more particularly in the eyes of the then Canadian Government), and an impediment to the political agreements upon which the Washington Naval Convention was based, why its dropping should not have been accompanied by every possible gesture required both to avoid wounding Japanese feelings and to make it clear that our friendship remained in every essential unaltered. Instead we simply drifted apart, leaving Japan to nurse a grievance and to follow lines of policy which might have been modified if there had been closer consultation between us. The final stage in mutual misunderstanding was reached when Sir J. Simon at Geneva, after showing that he clearly realized the practical strength of Japan's case for intervention in Manchuria, yet felt unable to dissociate himself from the theoretical condemnation passed by the League upon her action. The wholly illogical embargo subsequently imposed upon the

export of armaments to either Japan or China implied no modification of the condemnation, but only the admission of our naval impotence in Chinese waters, if Japanese cruisers had held up our ships.

The time has come for a fresh start in Anglo-American-Japanese relations based on a recognition of the realities of the situation, and, in particular, of Japan's urgent need for markets and of her natural aspiration to play the leading part in the regeneration of the Far East. What is needed is a new Anglo-American-Japanese agreement or understanding which will afford a wider scope than the old Nine Powers Pact for Japan's desire for expansion, and in the light of which Japan would be prepared to limit those exaggerated claims to a monopoly of security and potential mastery over the whole Western Pacific to which we and the United States are bound to offer an inflexible resistance. The natural accompaniment of such a fresh start would be some gesture which will definitely emphasize the new approach to the problem. The obvious gesture to hand is the recognition of the state of Manchukuo. It will have to come anyhow. No one dreams—not even the Chinese politicians at Nanking—that Manchukuo will ever revert to China. Why not then secure the good will of a sensitive people by admitting a fact which no petty nagging can reverse, and by recognizing the great task of practical reconstruction which Japan has taken in hand, in the interest of its inhabitants as well as her own, in that vast and undeveloped country?

With such a start it should not be impossible to arrive at a basis of general agreement with regard to the future of China. Japan is, presumably, no more anxious than ourselves or America to be involved in the difficulties and responsibilities of a policy of annexation in China. Even the extent of direct interference which she is now exercising in Manchukuo is probably more than she could wish or afford to assert on an infinitely vaster scale and against far more determined resistance. I believe that, like ourselves, Japan—once her position in Manchukuo were frankly accepted—would prefer to see an independent and prosperous China, provided that such a China were prepared

to co-operate with her and offer her a fair opening in her markets. That under conditions of equal competition Japan will secure the lion's share of the Chinese trade is, no doubt, inevitable. But we, who are rightly determined to keep Japanese competition out of Empire markets, are in no position to complain of the consequences of equal treatment in a neutral market.

There is, of course, the alternative, the much more dangerous alternative, that, in spite of all the support or patient toleration of outside Powers, China should fail entirely to settle down to any effective unitary system of government. In that case natural forces would be bound to assert themselves sooner or later, and to lead to the creation of spheres of influence, and to the inevitable danger of conflict over the delimitation of such spheres, between Japan, ourselves, and the United States. Even such a situation, however, should be susceptible of peaceful adjustment, provided that we and the United States work in harmony, and are prepared to take a generous view not only of Japan's economic requirements, but of her aspirations to political predominance in Mongolia and Northern China. Similarly, while it is no part of our policy, or of American policy, to foster a quarrel between Japan and Soviet Russia, it would be no concern of ours, if such a quarrel developed into war, to prevent Japanese expansion in Eastern Siberia.

An essential foundation of our Far Eastern policy must be good will towards Japan and a generous understanding of her aspirations and needs. But a no less essential foundation is mutual respect, and in international relations there is no respect for the defenceless. At the present moment the whole British Empire, from the Cape to India, to Malaya, to Australia and New Zealand, is practically defenceless, if Japan chose to go to war with us. Nor, in a war between Japan and, say, the United States, are we in any position to maintain our neutral rights in the Pacific or in the Indian Ocean. The completion of the Singapore base, and of all the ancillary dispositions in the Mediterranean and elsewhere, which would enable us, at any time, to transfer our main naval strength to Far Eastern waters,

is an indispensable condition of success in our Far Eastern policy. There can be no question of menacing Japan with a policy of naval aggression. Singapore is three thousand miles from Yokohama, and can only be said to menace it in the sense that Plymouth is a menace to New York. Even Hong Kong, which we may be compelled to re-equip on an entirely new scale, if the forthcoming negotiations fail even to retain the mutual non-fortification arrangements upon which the principle of "equal security" was based, is farther from Japan than Gibraltar or Malta are from Toulon.

No less difficult, though, perhaps, less immediately urgent in point of time, are the problems connected with the defence of India, and of our communications with India, which may be created for us by a new southward expansion of Soviet Russia. There can be no doubt of the genuineness of Russia's peaceful intentions both towards her European neighbours and towards ourselves, so long as her mind is preoccupied, as it is at present, with the prospect of another war with Japan. But there can equally be no doubt that Russia is becoming increasingly militarized, both in spirit and in actual preparation, in every branch of her fighting forces. The peace strength of the Red Army has now been admitted as 940,000. This figure does not include frontier troops or vast numbers of men undergoing short term territorial training in their own districts or civilians receiving training in summer camps or in connexion with factories and universities. These last alone number some 4,000,000, and include a very large proportion of men who have passed tests as air pilots, parachute jumpers, gliders, or aircraft engineers. Nor is there any reason to believe that the Soviet gospel has lost any of its essentially propagandist and aggressive spirit. In the Far East we are, as I have just set out, concerned with the possibilities of a conflict of economic interests which are, in the last resort, always susceptible of a quantitative settlement. In the Middle East we are likely sooner or later to find ourselves confronted with the far more difficult and dangerous problem of territorial aggression, advancing under cover of internal revolutionary movements in the



border states, and even within our own territories, and threatening us not merely with the loss of a market but with the destruction of our whole Imperial position.

For the time being Russia is looking elsewhere, though a certain amount of anti-British propaganda is being steadily carried on in all the border countries round India and in India itself. But at any moment the issue with Japan may be adjusted, whether by war or otherwise, and the Russian advance towards India may begin. In the main our answer can only lie in strengthening the independence, internal good government, and prosperity of the border countries. Turkey, the westernmost of these, is most likely to seek her security in closer association with the Balkan Powers and, indeed, with the European system generally. It is Iraq, Persia, and Afghanistan that constitute the real problem, and our main task there lies in convincing the governments and peoples concerned that we do desire their independence and prosperity, and that in endeavouring to draw them closer to ourselves we are throughout mindful of their security and of their status as well as of our own interests. There again, even the clearest evidence of the excellence of our intentions would be worthless, unless it were accompanied by the conviction that, in the last resort, our armed strength is adequate to defend them, if they stand by us, or to crush them if they join in an attack upon us. Meanwhile in a world in which economics and politics are increasingly becoming one, we should be very careful of encouraging any economic developments which, even if advantageous from the strictly commercial point of view, could strengthen Russia's financial or industrial position and increase the danger which may one day confront us from that quarter.

I have deliberately avoided entering upon the complicated and ever-shifting details of contemporary Foreign Policy in this chapter in order to focus attention upon what I believe to be the main issues. There are in essence two main problems which we have to solve: one is the maintenance of our position in the Far East; the other, no less difficult and dangerous, the maintenance of our position on the Indian frontier and along the line of our communications between the Mediterranean

and India. It is upon these that our attention and energy should be concentrated. In both cases our policy should be defensive, simple and easily intelligible to the rest of the Empire and to the United States, and, in the latter, also to those Near and Middle Eastern countries whom we wish to associate with ourselves in a common policy of stability and progress against Russian aggression. As for the affairs of Europe, we can leave them to the peoples of Europe to settle among themselves. European self-determination and British freedom of world action are for us complementary aspects of one and the same policy of defence and consolidation. That policy should suffice for our generation at least. What the next stage is to be in our own evolution and that of the world only the future can tell.

## OF IMPERIAL DEFENCE

"It was the sea that, from our beginnings, directed our imaginings. It was the sea that waited on us the world over, till our imaginings became realities—till our mud-creeks at home grew to be world-commanding ports, and our remotest landing-places the threshold of nations.

"It is the sea that has given us the cutting-edge to our imagination—the nerve that meets all manner of trouble, with the inherited conviction that nothing really matters so long as one keeps one's nerve; and, in that certainty, overcomes every handicap without too much clamour."—*Rudyard Kipling*.

"The water is more properly our element.—*Bolingbroke*.

The British Empire is the creature of sea-power. Every portion of it was settled or conquered from the coast inward under the shelter of our command of the sea. The process began when Angles, Saxons, Jutes, and Danes sailed up the tidal estuaries of this island to plunder and in the end to settle. It was repeated up the St. Lawrence, into Hudson Bay and up Vancouver Inlet, at Table Bay and Durban, at Port Philip and Sydney Harbour, at Auckland and Wellington, at Bombay, Madras, and Calcutta, at Lagos and Mombasa, at Alexandria and Basra. Wherever we made our way inland, it was with our base on the sea, and looking to the sea for support in war or for the trade which would justify our settlement. From every coast we spread in course of time until we could spread no farther: in Britain, Australia, and New Zealand until the sea encircled us again completely; in North America over almost the whole of a great continent, surrendering half of it eventually to our own revolted colonists; in India to the mountain ramparts of Himalaya and Hindu Kush; in Africa till the spheres of Cape Town, Alexandria, and Mombasa met after the Great War. In nearer Asia, Haifa, the Suez Canal, Aden, Muscat, and Basra form the nuclei of a zone of influence which extends to the mountains of Kurdistan and the edge of the Iranian plateau. Each such conquest and consolidation had in itself the elements of self-sufficiency,

to which—with the one exception of the American Colonies which became the United States—our flexible political system has given due recognition, without affecting that continuing interdependence created by the expansion of mutual trade or by the emergence of new problems of defence, of which the freedom of the sea is the indispensable condition. "The security by sea passage," to quote the newly issued White Paper on Defence (Cmd. 4827), "forms the basis and foundation of our system of Imperial Defence without which all other measures can be of but little avail." It is by sea-power that we live and move and have our being. The Seven Seas are our true home territory, our permanent base. All the rest are the dependencies or the outworks of an oceanic system embodied in the Royal Navy and the Mercantile Marine.

For all that, it is largely by fighting on land—where fighting has been necessary—that our territorial expansion has taken place; and the Empire to-day has immense frontiers which can only be held by land forces, whether on the spot or brought across the seas. Even if we disregard our four thousand miles of frontier with the United States, and our land frontiers with the European Continental Powers in Africa and Asia, we still have at least one military problem of the first magnitude in the defence of our whole position between the Mediterranean and the Himalaya, and another contingent military problem which may arise from the permanent collapse and break up of China. Behind the vast front which, in a sense, extends from Haifa to Shanghai, the problem of internal police is, or may become, indissolubly linked up with the problem of external defence, and calls for an organization capable of dealing with both. To these military responsibilities must be added the further task of securing the defence of the chain of naval bases (including the Suez Canal) without which the Navy cannot operate or move freely. These are tasks large enough, in all conscience, even if we rule out any idea of a life-and-death struggle like the late War, whether on the European continent or elsewhere, as sufficiently improbable for the next generation at least, to justify our leaving it outside the immediate scope of our military organization.

Such is our problem of defence, regarded from the point of view of the two distinct elements of naval and land warfare from which we were accustomed to regard it in the past. But the whole problem is being transformed, to an extent of which no one has yet formed any clear conception, by man's conquest of the air. No kind of plan of Imperial Defence, and consequently no intelligent foreign policy, is possible unless we first come to reasonably definite, even if provisional, conclusions as to the extent to which the employment of the older arms, and, indeed, the whole character of war in the future, will be modified by the development of the air weapon. At present there is no sort of common ground of agreement upon which to base a coherent defence policy adapted to modern conditions. Side by side with the wildest apocalyptic visions of a new world of mutual holocausts of destructive terror proclaimed not only by technical fanatics but by sober statesmen, we have the steady cynicism of the older services and departments which instinctively refuse to believe that anything has been seriously changed or that any case has yet been made out for a fundamental reorganization, let alone a drastic re-allocation of expenditure. Some attempt, at any rate, to arrive at a balanced conclusion, will be made in the following pages.

What we have to consider essentially is not so much a new weapon as a new form of transport. The weapons employed—bullets, high explosives, gas-filled bombs, shells or torpedoes—are those already in use on land and sea, with this difference, that in the case of the heavier projectiles the aeroplane simply drops them on its target instead of employing elaborate and heavy machinery for their projection. The first characteristic of air transport is that, within its range, it is almost entirely unaffected by the configuration of the earth's surface. Land or water, forest or desert, heights or valleys, none of these, except a few of the world's highest mountain ranges, present the slightest obstacle to it. What applies to natural obstacles applies equally to any obstacles that armies or navies might try to interpose. The second is that, again within the limit of its flying height, it enjoys complete flexibility of movement in

three dimensions, as against sea transport which has complete flexibility in two, and railway or road transport which, on any particular section at least of railway or road, is purely one-dimensional in its power of direction. The third is its tremendous speed, up to four or five times that of the fastest land transport, and up to eight or ten times that of the fastest surface vessel. Taken together, these factors all increase enormously the opportunity for evasion and surprise, the range of objects available for attack and, indeed, the whole power of the offensive.

On the other hand, air transport is subject to very definite limitations. The aeroplane, which alone is formidable from the fighting point of view, can only be maintained in the air at a tremendous expenditure of energy in terms of fuel. Its flying range and speed, the weight it can carry, the time it can stay in the air, are thus all narrowly and reciprocally restricted. It cannot cruise for a week at a time, or ride out a storm, or a fog, or sit in a siding or by the roadside waiting for its opportunity. At all costs it must get back to a friendly aerodrome before its fuel is exhausted. With every hundred miles from its starting-point the bomber's offensive power rapidly diminishes, while the defending fighter's efficiency within short range of its own aerodrome is proportionately increased.

Making all allowance for the factor of surprise and the element of genius in war—and the aeroplane should greatly increase the opportunities for both—it still remains true that the foundation of all military operations is transport, and, under modern conditions, transport on a colossal scale. Not only supplies, but above all munitions, offensive and defensive, require incredible tonnages. Modern war, from the purely technical point of view, is inconceivably wasteful of killing power. A bullet weighing a few ounces, rightly aimed, can kill a man at a thousand yards' range. In theory a couple of riflemen could carry into action enough ammunition to annihilate an enemy battalion. In practice, when both sides are under each other's fire, it takes, I believe, several tons of bullets to kill a man, and the tonnages mount far higher for artillery. The air bomber is no more exempt than any other weapon from this general rule. Calculations

of the destruction which might be inflicted on London, based on multiplying the number of French or German aeroplanes by their carrying capacity in bombs, are meaningless until we can form some idea whether, in face of effectively organized resistance, the figures should in practice be reduced to a tenth, a hundredth, or even less of their theoretical effectiveness.<sup>1</sup> In other words, an attack launched by air, like one based on any other form of military transport, will have to carry very large tonnages of projectiles if it is, in fact, to produce serious results *in face of opposition*.

If war, like commerce, is largely a matter of transport, then there must be certain general principles of transport economy underlying it, and affecting the utility and scope of the various forms of transport which it employs. Of all forms of commercial transport, the most efficient and economical for heavy freights, long distances, and where high speeds are not required, is the surface ship. The sea provides it, free of cost, with a permanent way, capable of carrying unlimited loads. The power required for propulsion is comparatively cheap, for moderate speeds at least, and is easily carried on the vessel itself, which is thus free, within the limit of its fuelling capacity, to go from anywhere to anywhere. That is why the ship is destined to remain the most effective general carrier of the world's traffic, wherever it is available. Road and rail, with their costly permanent way, the limited carrying capacity of their units and general high working costs, will only compete where there is no sea route, or where, for passengers and lighter cargoes, there is a very great saving of time. The aeroplane will compete increasingly with both for light and high-speed traffic, and, with the help of suitable aerodrome provision, over very long distances. But its high cost of propulsion, small units, and

<sup>1</sup> Lord Mottistone, speaking in the House of Lords on November 15, 1934, stated that in the course of the War Germany dropped 270 tons of bombs in this country, which killed 1,403 persons, or 5·5 for every ton dropped. He calculated that the maximum tonnage that could be dropped on this country on the first day of a surprise attack might be 200 tons. Taking even ten times as high a casualty rate as that of the War, that might mean 10,000 killed; a terrible figure in itself, but certainly not one to bring to its knees a country that faced without wincing casualties ten times that amount per day in the War.

relatively large personnel, will always prevent its displacing land or sea transport for the ordinary purposes of bulk traffic.

All these considerations also apply, when the goods to be carried are guns, shells, or defensive armour, though with certain modifications. Within its range, the bombing aeroplane enjoys an immense advantage over land and sea transport by reason of its speed and power of choosing its target, modified always by the amount of air fighter support enjoyed by the land or sea forces. But that range may be strictly limited by the absence of aerodromes in combatant territory, and beyond that range the advantage still remains with the older forms of transport and, particularly, with the ship. For it must always be remembered that when it comes to war all non-combatant territories, and the air above them, are excluded from the sphere of operations, while the sea remains free. In the case, for instance, of a war with Italy we could no more send aeroplanes for the defence of Malta across France than we could send troops over the French railways. They would have to be shipped round by Gibraltar or fly from Egypt.

A concrete example will serve best to illustrate my argument with regard to the limitation of air-power, as against sea-power, over long ranges. After his victory at Coronel on the West Coast of South America Admiral von Spee had the whole of British shipping and of undefended British territory in the Pacific and in the South Atlantic at his mercy. Admiral Sturdee's two battle cruisers were at once despatched south, refuelled from their own oil ships on the way, and met and destroyed the German squadron off the Falklands. The meeting was an accident. But what is certain is that nothing could have saved von Spee, once the battle cruisers, with their greater speed, greater endurance, and heavier armour, were in pursuit. Destruction at sea, or internment in a neutral port, were his only alternatives. As it was, the actual operation of sinking the German ships, under favourable conditions in every respect, yet took some five hundred tons of heavy projectiles. The problem, stated in terms of transport, which the battle cruisers solved, was, therefore, that of conveying five hundred



tons of projectiles to within range of the German cruisers, wherever they might be.

How far could that problem, even with modern developments in aviation, have been solved by the use of the air weapon? There is no reason to suppose that in actual practice aeroplanes would have made sure of the German ships with a less total tonnage of projectiles. Even with bombers capable of carrying five tons of bombs apiece, that would have meant bringing one hundred aeroplanes into action. But how could they have been brought into action? They could not have been flown all the way to the Falklands, and if von Spee had not stumbled in there they could not have pursued him across the oceans. If sent out to the Falklands by ship, either before the War, or at the risk of capture by von Spee after Coronel, they could have protected the sea within immediate range of their aerodrome. But a similar air force would have had to be stationed to protect every other threatened British possession within the practically unlimited range of von Spee's cruisers. And all of these forces together would have been helpless to protect British ships on the ocean itself.

The fact is that when it comes to weight carrying, which is the ultimate basis of fighting or destroying power, the aeroplane, with all its immense advantages in speed, flexibility, and surprise over comparatively short ranges, is still far from being the equal of the older systems of transport in mobility and striking power over the longer distances. It will never, I believe, wholly supersede the older systems, but on the contrary attain its highest degree of efficiency in proportion as it utilizes their services most fully. Its maximum value, indeed, depends, apart from its power of reconnaissance, in a recognition of the fact that it is not only a form of transport with definite limitations, but also, from the point of view of the older methods of transport, a form of projectile of immensely increased range and flexibility.

This conclusion might be reinforced by stating the problem in a somewhat different fashion. Let us suppose that aeroplanes had been the only known form of transport, whether for commercial or military purposes, and that

railways, motor vehicles, and ships were new inventions. It would soon be discovered, in regard to operations over land, that railways and lorries would be of the greatest advantage not only in bringing material to existing aerodromes and troops for their ground defence, but in helping these troops to gain ground for more advanced aerodromes, facilitating attack upon the enemy's most vulnerable centres, and at the same time pushing back his aerodromes. Both sides, in fact, would be forced to develop ground armies based on land transport to support their air operations against each other. The aeroplane is destined, by its power of overleaping an enemy's front line, profoundly to alter the character of land warfare by decentralizing defence in depth, and by rendering impossible the immense armies of recent times with their highly vulnerable rearward services. For all that, the fighting front on the ground will still remain of primary importance, because the extent of ground held is one of the most vital considerations from the point of view of air warfare, apart from the control it gives over the resources of the territory occupied and over its inhabitants. In other words, air warfare will not supersede, however profoundly it may modify, the employment of land forces.

Greatly as air warfare, in my hypothetical case, would be modified by the invention of land transport, it is nothing to the revolution in air warfare which would result from the invention of the surface ship. The Power that was the first to equip itself with mobile aerodromes, in the shape of aircraft carriers, capable of covering thousands of miles without refuelling, would at once enjoy an immense advantage over all others. The whole world, beyond the range of fixed enemy aerodromes, would be at its mercy, and even in dealing with enemy territory and enemy aeroplanes based on land it would always have the initiative in the starting-point of the attack. What would be the answer of other nations to such a development? It might simply be other aircraft carriers to match. But it might also occur to them that a cheaper and for some purposes equally efficient form of reply might be a submarine or a small swift surface vessel armed with guns or torpedoes which, in stormy or foggy weather or at night, might sink the aircraft carrier

with all its aeroplanes. The first Power, in its turn, might simply be content to rely for the protection of its aircraft carriers on their speed, their armour, and their aeroplanes. But it might also, conceivably, add to these measures its own surface craft, swifter and more powerful than those it had to deal with. So by the natural evolution of competition we might find a navy consisting, to begin with, entirely of aircraft carriers, transforming itself into one in which most of the elements of present-day navies would be represented.

There are those who see the end of the British Empire in every new invention. Not only the Duke of Wellington, but the Admiralty, once held that view about the invention of the steamship. As late as 1828, twenty-six years after the first practical steamship was launched, a Colonial Office request for a steamer to convey mails from Malta to the Ionian Islands was met by the answer that the Lords of the Admiralty

“felt it their bounden duty to discourage to the utmost of their ability the employment of steam vessels, as they considered the introduction of steam was calculated to strike a fatal blow at the naval supremacy of the Empire.”

To-day it is widely held that the discovery of the aeroplane has destroyed the value of sea-power and made the defence of the Empire almost impossible. I draw precisely the opposite conclusion from the considerations I have given above. The aeroplane has enormously enhanced the importance of sea-power, and made it, more than ever, the decisive factor in world affairs. For sea-power has gained—what it never had before—the power of offensive action for hundreds of miles inland from every coast line. It has, no doubt, lost the undisputed control of certain narrow seas, over and across which land-based aeroplanes will contend, as batteries of artillery used to shell passing traffic, or each other, across a river. But the area lost is a mere fraction not only of the high seas where sea-power retains its supremacy, but also of the field of action gained. The change for us involves possibilities of danger to the local security of this island, which it would be folly to minimize, and which must be provided against. But they are not, if

we adopt a prudent policy of detachment from European controversies, imminent dangers, serious enough to deflect the main scheme of our Imperial defence, which more than ever is destined to be based on a Navy which will no longer be only our sure shield but also our striking spear.<sup>1</sup>

There is another school of pessimists who see in the invention of the air weapon not only our own particular destruction but that of civilization as a whole. Their argument is based on two premisses. The first is that the bombing aeroplane can always get past the defence and that, therefore, the only answer is to bomb in return—nothing else is really worth while. The second is that the obvious target for air attack is the civil population, the object being to induce the enemy's surrender by sheer terror and demoralization. The conclusion from these premisses is that the next war will be a mere competition in slaughtering women and children, and in destroying churches, museums, art galleries, and other public buildings, until one side or another throws up the sponge in despair and both are left to sit upon the ruins.

The argument is one which was used, in the first instance, by enthusiastic advocates of the expansion of the Air Service, on the one hand exaggerating, in good faith, certain largely temporary features of air strategy, and on the other anxious to secure support by making the public flesh creep. But it naturally afforded an admirable handle for the pacifists in their clamour for disarmament and, in particular, for the abolition of all air forces. It received additional weight in this country by a curious emotional speech delivered by Mr. Baldwin in November 1932, in which he expressed the wish that aviation had never been invented, and appealed to the young men of the country to secure the abolition of all air forces:

<sup>1</sup> It is interesting to consider how completely a strong, sea-borne air force would, in the Great War, have dominated the Turkish lines of communications alike with Mesopotamia, with Palestine, and with the Dardanelles. Or, again, how completely the problem of air defence against Germany would be affected by powerful squadrons of fighters available on aircraft carriers on the North Sea to intercept the attackers both on their outward and on their homeward journeys. It is possible, too, that for such purposes aircraft carriers will presently be supplemented by sea-dromes, or huge floating decks and hangars combined, which may be developed for commercial purposes on the ocean routes.

"If the conscience of the young men should ever come to feel, with regard to this one instrument, that it is evil and should go, the thing will be done. But if they do not feel like that, well, as I say, the future is in their hands. But when the next war comes and European civilization is wiped out, as it will be, and by no force more than by that force, then do not let them lay the blame on the old men; let them remember that they principally, or they alone, are responsible for the terrors that have fallen upon the earth." (Official Report, November 10, 1932, Col. 638, Vol. 270.)

The three-dimensional character and speed of air warfare, and the comparative invisibility of the aeroplane, undoubtedly give to the attack a greater advantage than it enjoys in other forms of warfare. But it is a relative and not an absolute advantage. Defensive measures, whether in methods of detection, or of defence from the ground, or in the use of aprons of netting suspended from balloons or airships, or of smoke screens, or in the tremendous increase in the rapidity with which fighters can rise from the ground, or in the development of the autogyro, all these are being improved all the time, and it would be contrary to all the experience of history if the defence were not to match the attack sufficiently at any rate to reduce enormously the actual striking power of the bomber, and to bring into effective play those considerations of bulk transport which I have dwelt upon earlier in this chapter. It is significant that as our defensive and counter offensive measures improved in the course of the War, German air raids on this country became fewer and fewer, and ceased altogether in the last five and a half months.

The second premiss, that terrorism will be the main object of air warfare, is even more dubious. As a method of imposing one's will upon an adversary, terrorism has always been available, and has generally been discarded as ineffective. It was always open to the Germans to massacre the whole civilian population of occupied Belgium and Northern France in order to induce the surrender of the enemy armies. Can anyone, knowing the effect upon Allied and neutral opinion even of certain very limited examples of "frightfulness," have any doubt as to what Germany would have suffered both during and after the

War, if she had carried out such a policy? And apart from the intrinsic weakness of terrorism as a policy, there will always be more important military objectives—aerodromes, docks, railway stations, and bridges, munition factories, petrol stores, etc.—for which there will never be enough bombs or aeroplanes available. Air warfare, indeed, by its very nature, will be far less concerned than the warfare of the past with killing men, and far more concerned with destroying material apparatus.

The real problem which we shall have to face is not that of intentional terrorism, but of the destruction of civilian population and historic buildings incidental to the pursuit of military objectives. That is a problem which the conventions of war faced, more or less successfully, in former days, in connexion with the shelling of towns by land or sea. International agreement upon some convention which would be based upon a definite and easily recognizable division of a country into military and non-military areas would be an object far more attainable than any limitation of armaments and far more worth attaining. Within the military areas the civilian population will have to take such measures of special precaution against gas attacks, and submit to such special discipline, as may be necessary. In any case, for the reasons given above, as well as in an earlier chapter (see pp. 57-61), I see no reason to believe that our own existence, or civilization in general, is more likely to be destroyed by air warfare than by earlier methods. Whether for the spread of peace, or for the speeding up of war, aviation has come to stay, and it is no use bleating about it. In so far as it involves special dangers to this island from our immediate neighbours on the Continent, it is for adequate defensive measures and a prudent foreign policy to combine to avert them.

Our system of Imperial Defence, then, will continue in the future, as in the past, to be based upon the Navy. But it will be a Navy whose main weapon will, more and more, be the aeroplane, and which will consist, in ever increasing proportions, of vessels whose primary function will be to act as aircraft carriers. From this point of view it is essential that we should liberate ourselves as soon as possible not

only from those treaty restrictions which limit the number of cruisers we require for patrolling our trade routes, but, no less important, from those which limit the number of our aircraft carriers or our right so to modify the construction of all our ships of war so as to enable them to make the fullest possible use of the air weapon. Such a Navy, with its vastly increased range of fighting opportunity over land and sea, should offer a wonderful field for the adventurous spirit of our sailors to develop on new lines the great traditions of the past. In one sense, at least, the opportunity may be one for reverting to a tradition and a skill which disappeared with the disappearance of the sailing ship. The fact that the aircraft carrier has to be steaming against the wind in order to receive its aeroplanes, is obviously bound to affect profoundly the manœuvring of fleets in action against each other. It will be for the Rodneys and Nelsons of the future to work out the consequences of this fact in their tactical dispositions.

Side by side with the Navy we shall continue to require an army to hold the frontiers of the Empire, to garrison its fortresses, and to police its disturbed areas. No less profoundly than in the case of the Navy the internal structure of the Army will have to be modified by increasing co-operation with the air for every purpose, and by the changed conditions imposed upon it by enemy air attack. It will have to be an Army more flexible, more dispersed, more mobile. It will have to reduce its ground transport near the enemy front to a minimum and will make increasing use of the aeroplane or the autogyro, not only for fighting and reconnaissance, but for intercommunication and even for the transport of men and supplies. It should be almost entirely mechanized, though it may still use the light horse as an emergency means of locomotion and transport in countries where there is grazing and where the conveyance of motor fuel is difficult and presents a vulnerable target to the enemy. The kind of horse that requires to have large quantities of oats carried after it, and the kind of cavalry that lives for "shock tactics" may be regarded as extinct—for military purposes. On the other hand, it will require, alongside of its highly mobile field force, a very

considerable element of both stationary and mobile defensive equipment and personnel dispersed over a large number of vulnerable points in order to deal not only with enemy bombers but also with enemy detachments landed by air. All these changes will call for corresponding changes in the internal organization of the Army, some of them already in process of being tentatively experimented with.

Among these changes one that calls for the most serious consideration is the reform of the Cardwell system. The basis of that system, introduced in the "seventies," is the linking to each battalion abroad of a battalion at home, serving, in the first instance, to train recruits and to keep them until of sufficiently mature age to be drafted abroad for tropical service, but available on the mobilization of the reserve produced by a seven years' period of service, to take the field as a fighting unit. The system is convenient in so far as it enables us to maintain a highly efficient oversea service and garrison force without creating the pension and other problems arising from the old twenty-one years' service system which it superseded, and also, incidentally, enables us to mobilize a force for war purposes. Its cardinal weakness lies in the fact that the force thus mobilized bears no relation whatever to any strategical necessity, but is purely an incidental by-product of the strength at which, at any time, our oversea peace establishment happens to be.

It was to meet this defect that the late Mr. Arnold-Forster, the ablest and most clear-thinking War Minister of the pre-War generation, devised his scheme of Army Reform in 1905. The essence of that scheme was so to divide the period of service that while the majority of recruits served only for fifteen months, and then passed out in order to create a really large reserve, a longer period of service enabled certain units at home as well as the oversea forces to be kept up at full strength. In this way it would have been possible to keep some two divisions at home always available for immediate despatch without waiting for mobilization, while on a general mobilization there would have been provided a total force nearly double the size of that available in 1914. Incidentally, the scheme would have corresponded more nearly with the true interests



of the recruit—a vital point in a voluntary army—by giving him the alternative of a service so short as not to interfere with his prospects in industry, or long enough to afford a career in itself. But it met with considerable resistance from older generals to whom it was inconceivable that a recruit could learn anything in fifteen months. Before it could be put into effect Mr. Arnold-Forster was succeeded by Lord Haldane. The new Secretary of State did much good work for the Army within the limits which he set himself. But he never understood the problem like his predecessor, nor was he prepared to see through an unpopular and difficult reorganization. He accordingly dropped the scheme, content to let the War Office give the best organization they could to the force which was to prove so inadequate in numbers to the problem which it was called upon to face in 1914. To-day, at any rate, when a general reconsideration of our organization is imperative for many reasons, it may be that the underlying principles at least of the Arnold-Forster scheme should deserve more attention than they received at the time.

The actual structure of the fighting organization in the field calls for no less thorough a reconsideration. The historic division into infantry, cavalry, artillery, and the units of which these have been customarily composed, from the section up to the army corps, will all require to be recast in order to secure both the most efficient co-operation of the various new weapons devised by modern science, and the flexibility and dispersion which will be the paramount object for ground forces always subject to air attack. The army of the future will at all costs have to avoid concentration, whether of troops or of transport. It will have to be everywhere and nowhere in particular. Even for a great issue it will not bunch into vulnerable masses, but only secretly and rapidly reduce the extent of its dispersion in the critical area of attack or defence. I use the word "area," not "front," because the extent to which troops will be dropped behind the opposing front on both sides may become an increasingly important element in warfare. All these considerations mean that the mobile field force of the future will have to be small, composed of highly

intelligent, self-reliant, and adventurous individuals, and so organized that its smallest units can work independently, and can be combined in varying proportions of the different arms as circumstances dictate. The section, possibly consisting of one non-commissioned officer and nine men, will have to be as self-contained almost as a company is to-day. Numbers of less highly trained men will no doubt be required, in conjunction with anti-aircraft batteries, for the passive defence of all kinds of important fixed points. But the only forces that can bring about strategical decisions will be as small in numbers as they will be formidable in action. For us with our small professional army it should be much easier to adapt our organization to these new conditions than for nations accustomed to relying on conscript armies and bred in the tradition of mass attacks.

To an ever increasing extent the main weapon of the older forces will be in the air. It may be asked, then, why not let each develop its aviation to the fullest without complicating matters by the existence of a separate Air Service? The answer lies, for us at least, in the fact that, apart from the circumstances in which the Air Arm, however important, is still but the extension and spear-head of forces based primarily on sea or land and aiming at naval or territorial objectives, there is still a wide range of possible operations in which air operations as such may be carried on quite independently or in which, at any rate, the element of air operations is so supreme that the function of the other services may be purely subordinate and supplementary. The most obvious instance of this is the air defence of this country, say, for the sake of argument, against France. In such a case the air war across the Channel would be waged in no immediate connexion with military operations, which might be in Africa, Syria, or Indo-China, or with naval operations in the Mediterranean. Naval air co-operation, indeed, might in certain circumstances be employed round the coasts of France purely as an element in the air war, and its control then naturally subordinated to the general air control. Again, there is a great area of the world's surface, of particular interest to ourselves, extending from the Sudan to the frontiers of India, where the open nature

of the country, the low density of population, and the lack of ordinary transport facilities, make the part played by the aeroplane so dominant that the general control has, quite rightly, been assigned to the Air Force.

On the other hand, with the ever increasing development of the use of the aeroplane, whether as projectile, as scout, or as transport, the Air Force will have to abandon its claim to a monopoly of everything that leaves the surface of the ground or of the water. That was a claim sustained with tremendous and not unnatural tenacity in early days when the existence of the Air Force as a separate service was in doubt, and when any demand for independent control of a single aeroplane was regarded as the prelude to complete dismemberment. It is a mistaken claim to-day. The aeroplanes that fly from our ships are as essentially a part of the Navy as the guns or the destroyers which they are largely destined to displace, and the present arrangement by which they are still supposed to be part of the Air Service, and remain largely under Air Force control, is becoming as anomalous as the original arrangement under which the guns and gunners on board ship once belonged to the Army. Whatever may have been the case in the past, it is to-day an obstacle to the more rapid reorganization of the Navy as, in increasing measure, an air force based on the water. In a lesser degree the time will no doubt come when a considerable proportion of the aeroplanes used by the Army for artillery observation, for intercommunication, or for transport will actually belong to it. A method of transport destined to become as universal as the motor car or the bicycle cannot remain the monopoly of a single service.

The sharp division between the old forces of warfare is, in any case, destined to be replaced by an ever varying set of circumstances in which all three services will come into play and in which now one and now the other will exercise the dominating influence and give the decisive ideas to the strategy employed. Such a prospect calls for a far-reaching reorganization of the whole relation of the three services to each other. The need for this is, indeed, widely recognized. But it has commonly found expression in the crude idea of unifying the whole of the three services under a single

Minister of Defence, responsible, in the last resort, for the administration and policy of all three services. I believe such a solution to be unworkable. The administration of each of the services is already a full-time task for a competent Minister, leaving far too little leisure for the study of policy. A Minister responsible for the administration of all three services would have no time at all to think out policy or to impress it upon the Committee of Imperial Defence or the Cabinet.

What is needed most is not the co-ordination of administration but the co-ordination of policy. The beginnings of this exist already not only in the Committee of Imperial Defence, but in the small standing Sub-Committee of the three chiefs of staff. But the co-ordination is incomplete. Firstly, because there is no joint expert staff at the disposal of the Sub-Committee, and all their work still tends to be prepared for its members by subordinates in their own service and from the point of view of that service. Secondly, because there is no Minister to bring their deliberations to a definite conclusion, to adjudicate between their claims, and to deal on issues of policy both with the Cabinet and, as regards the broad allocation of finance, with the Treasury.

The real need is for a Minister of Defence Policy, entirely free from departmental responsibility, to whom the chiefs of the three general staffs should be primarily responsible for all questions of general policy. Whether he should be assisted by a professional super-chief of staff, or work direct with the chiefs of staff of the three services, will require careful consideration. In any case he and his professional advisers should be assisted by a joint defence staff drawn from all the services. The elements for the creation of such a staff, in the shape of senior officers with a comprehensive point of view of Imperial Defence from every angle, are already being created by that admirable institution, the Imperial Defence College. The creation of a Minister of Defence Policy, co-ordinating defence in the narrower sense of the word, would not, of course, supersede the functions of the Committee of Imperial Defence where, under the Prime Minister, all aspects of defence, including Foreign Policy, Finance, and Economic and Social Policy, have to be brought

into relation to each other. Nothing, indeed, could be more disastrous, as the example of Germany has shown (see p. 29), than the results of a purely technical strategical policy pursued without regard to the general political situation. It would not, however, fit in altogether well with our existing system of a Cabinet mainly composed of administrative heads of departments. But the present Cabinet system has anyhow become inadequate to modern needs, and there is an urgent necessity on general grounds, stated in a later chapter, for the substitution of a smaller Cabinet consisting entirely of Policy Ministers free from departmental duties, but each largely specializing in the policy of a group of kindred departments.

It will be the task of such an organization as I have suggested to work out not only the future organization and relation of the fighting forces, but also the main strategical dispositions to which that organization must conform. It is possible, however, even in advance of such study, to indicate certain general features of our strategical problem in its relation both to geographical and political conditions. Of our naval position the first thing to keep in mind is that the mobility and effectiveness of the Navy is strictly limited by the provision, at reasonable intervals, of naval bases for refuelling, refitting, and repairing. The line of bases from the home dockyards through Gibraltar, Malta, the Suez Canal, Aden, and Trincomalee to Singapore is the backbone of our whole naval strategy. It provides the shortest route for the despatch of all reinforcements, military and air<sup>1</sup> as well as naval, to the Near East, India, and the Far East, in other words, to the regions where the most serious dangers to our peace are likely to arise. Until the Singapore base is effectively completed, and our main fighting fleet is in a position to move there rapidly and operate as effectively, with the assistance of an adequate cruiser force to cover our territories and trade in that quarter, as it now can operate in the North Atlantic or Mediterranean, we shall exist as an Empire in the Indian and Pacific Oceans only by sufferance of Japan. The completion of this backbone of our

<sup>1</sup> From the air point of view Cyprus, Haifa, Iraq and the Persian Gulf provides a shorter and even better alternative for part of the route.

whole defence system, and the provision of whatever cruiser and aircraft carrier force may be necessary to give us the requisite strength and security at any point along its length, should be the first concern of Imperial strategy.

The first section of this main line of our communications would undoubtedly be seriously menaced, by air as well as by sea, in the case of a European War in which either France or Italy was opposed to us. The danger is and should be kept remote. But if ever it became probable it would have to be seriously faced and call for exceptional strengthening of our naval air forces and of our Air Force at Malta, and, if it came to actual war, for the seizure of additional naval and air bases. The next section, that from the Suez Canal to Aden, is covered by the zone of air predominance and air control which extends from the Sudan through Palestine, Iraq and Arabia to India. This zone is one of paramount strategical importance, for it not only covers our naval highway, but also provides our main line of air reinforcement and air flank support for India. It is within this zone, in view of the difficulty of the rapid movement of aircraft from this country, as well as in view of the admirable training facilities which it offers, that an ever increasing proportion of our first line Air Force should be stationed. Palestine is the strategical air centre of our Empire Defence.

The next main element in our strategical problem is the defence of India. This is primarily a matter for the Army and Air Force of India—the latter still deplorably insufficient—and of the arrangements, naval and aerial, for the rapid reinforcement of India by troops and aeroplanes from home, from South Africa, and from Australia and New Zealand. Here, as in large measure also in the Near Eastern Air Zone, the problem of external defence is closely bound up with the problem of internal order and security, and our organization is one that must be capable of dealing effectively with both. These three elements of our strategy—the effective maintenance and equipment of our main naval highway from Plymouth to Singapore, the development of our air strength in the Near Eastern Air Zone, and the organization for the defence and reinforcement of India—

form together a single interconnected scheme of defence, calculated to deal with those dangers which are most likely to confront the Empire in the next generation.

There remains the problem of the Home Defence of this island. For us to remain as defenceless as we are against the possibility of Continental air attack is a risk we have no right to run, and gravely impairs both our general influence for peace in Europe and our freedom to decide what line of policy we shall pursue. The building up of a Home Air Force, comparable at least with those of our Continental neighbours, is a matter of immediate urgency. But, unless we pursue an unwise policy of European entanglement, the danger should be a remote one, and should never be allowed to deflect public opinion from the wider problems of Imperial defence. In practice, apart from its diplomatic value, the main service of our Home Air Force will be to be available as an emergency reserve for the Near East and India. It may, indeed, prove desirable, if the European situation improves, to transfer a steadily increasing proportion of it from this country to the line from Malta to Basra. In connexion with the problem of Home Defence by air, we should never leave out of sight the importance of the Naval Air Arm and its power of co-operating effectively against a European enemy, whether from the North Sea, the Atlantic, or the Mediterranean, or the superior economy of an arm which can be so easily and swiftly diverted from one strategical objective to another. Given that development of the Naval Air Arm which I believe essential, the main defence of England against any Continental adversary, except Germany, should be the Navy in the Mediterranean.

The defence policy which I have outlined is essentially an Imperial one. It provides for the defence of every part of the Empire against every remotely probable danger. The only exception, if it be an exception, is that it makes the assumption that there will be no unprovoked attack upon Canada by the United States. I believe that assumption to be one which we are justified in making and openly acknowledging. If it should prove wrong, then so unbelievable a situation would have to be met by measures which it would be neither practical politics nor good sense to discuss

to-day. Such a policy, both in its diplomatic and defence aspect, is one that every part of the Empire can support. And, in the long run, it is only with the support of the whole Empire that it can be sustained.

The essential thing to remember about Imperial co-operation in defence is that it must conform to the constitutional principles on which our whole system of free co-operation is based. The naval forces, the land forces, the air forces of each part of the Empire must be directly raised, administered, and controlled by the Government and Parliament of that part. It is for each Government and Parliament, too, to decide the extent and form of the defensive effort it is prepared to make in peace or in war. No mechanical scheme aiming at administrative unity or at a definite allocation of expenditure, could hope to win general acceptance, still less the active public support without which real progress is impossible. That does not, of course, preclude agreements of a far-reaching character, so long as it is recognized that they may not secure universal support from all the Dominions or one strictly proportionate to the resources of the governments concerned. The more the problem of our common defence is freely discussed and agreed upon between the governments and their experts the better. And in any case the more that units and individuals in all the Empire forces are trained and organized on similar lines and remain in constant touch and interchange with each other, the more easily—as the War proved—will politically and administratively independent forces work, in action, as a single Navy, Army, or Air Force inspired by the same ideas, the same traditions, the same sense of comradeship.

There is one field, in particular, in which the Dominions should naturally excel, and that is the air. Aviation is bound to play an ever more important part in the internal development of Canada, Australia, and South Africa, with their vast areas and scattered populations. They are likely soon to possess the foundation of all fighting air strength, in the shape of a very strong body of trained pilots in proportion to their population, and to be in a position, without undue cost, to create very efficient military air forces. The develop-



ment of civil aviation, indeed, not only in the Dominions, but on all the great inter-Empire routes, and within this country itself, lies at the very foundation of our defence.

In this respect we lag woefully behind other nations, more particularly the Americans and the Germans. In gliding, a sport of the highest value in teaching air sense and training for flying, we have some 350 individuals with Class A certificates as against 10,000 in Germany. The number of our pilots, as compared with German and American pilots, who possess night flying experience is infinitesimal. The airship may not be of great direct military value, though as an auxiliary cruiser for patrolling wide ocean spaces, and as an aeroplane carrier, it may have a useful part to play. But it can do much to teach general knowledge and mastery of the air, and to help the opening up of air services. It is a pitiful thing to think that the Germans are running with absolute success a regular airship service to South America, while we have stopped all development in this direction, terrified by an accident which, however tragic, did not cost nearly so many lives as are normally killed every week on our roads. It is equally discreditable to us that the Germans should be the first to develop a regular Transatlantic air service by seaplane, using two steamers, the *Westfalen* and the *Schwabenland*, stationed as floating air bases off the South American and African coasts. As a nation, and as an Empire, we are only just beginning to realize what the air means. The latest plans for the expansion of our Imperial air services to India, Australia, and South Africa, and, it is to be hoped, before long to Canada, are, at any rate, a great step forward. But we should not hesitate to spend far more than we have hitherto, not only on subsidizing the big passenger companies, but in creating provision of every kind which will make it as easy and natural for our peoples, as individuals, to fly as to use a motor car, and to tour round Europe and the Empire as to motor up to Scotland. One way or another we have got to wake up to the fact that one of the most far-reaching revolutions in human activities is taking place, and that it is our business so to turn it to account as to keep the British Empire in the forefront of the world.

Empire co-operation, whether in the air, or sea, or on land, cannot, however, be considered apart from Empire co-operation in the economic field. It is only in proportion that we help the Empire to develop in resources and in population that we can look forward to effective partnership in the burden of our common defence. That aspect of our trade policy is one which, with the watertight compartment outlook bred by Free Trade, we are still far too inclined to ignore. Every ton of beef brought from Australia, or of butter from New Zealand, involves an increase to the man-power and revenues of those Dominions, and is a direct addition to our strength and security to which there is no corresponding counterpart in our purchases from foreign countries. It contributes, further, to the development of communications by rail, by sea, and by air, by cable and by wireless, all of which may be of immense potential military advantage in time of danger. It contributes, no less, to the sense of a common interest and to an increasing personal intercourse and understanding, upon which, in the last resort, the political unity of the Empire depends. There is, in fact, only one Empire policy, in which foreign policy and defence, economic and constitutional relations, are elements which cannot be separated or considered in isolation, and of which each is, at one and the same time, the means and the end.

Meanwhile, the main responsibility for the common defence of an unorganized and undeveloped Empire continues to rest upon this island. It is a responsibility we cannot evade, or we may find the whole fabric upon which rest all our hopes for the future shattered and dissolved. So far circumstances since the War have enabled us to take risks which it would be criminal folly to take any longer. We have disarmed, partly from motives of economy, partly in the hope of encouraging others to follow our example, partly because in our war weariness we liked to cheat ourselves with the belief that a fundamental change had really taken place in world relations, and that somehow or other the "collective peace system" was going to provide our security for us. That dream is over. Even the present Government has had to admit, in the now famous White

Paper on Defence, that it has been a premature assumption to suppose that the "existing international political machinery" has superseded the need for defensive forces or can be relied upon as a protection against an aggressor. The White Paper ends with the following irrefutable statement:

"In the present troubled state of the world armaments cannot be dispensed with. They are required to preserve peace, to maintain security, and to deter aggression. The deliberate retardation of our armaments as part of our peace policy has brought them below the level required for the fulfilment of these objects, especially in view of the uncertainty of the international situation and the increase of armaments in all parts of the world. An additional expenditure on the armaments of the three Defence Services can, therefore, no longer be safely postponed."

The extent to which we have allowed the instruments upon which we must rely to "preserve our peace, to maintain security, and to deter aggression," to fall "below the level required for the fulfilment of these objects," is matter of common knowledge. It will be enough to cite only a few elementary facts to remind the reader of the position. Our Air Force which at the end of the War was supreme is—pending the carrying out of the new programme which is to bring us to a level of equality with France or Germany—only fifth, behind Italy, Germany, and the United States, and a long way behind France and Russia. And yet the needs of our air defence—in this island, in the Middle East, in India, for the defence of our naval bases, and in conjunction with the Navy itself—are far greater than those of any other Power. Our Army in 1914 was inadequate enough. Yet it has been reduced since the War by 9 cavalry regiments, 21 infantry battalions, 61 batteries and companies of artillery, 21 companies of engineers, 101 battalions of special reserve, and over 100,000 Territorials, against which the only increases have been 6 tank battalions and an air defence brigade. Where we could mobilize six divisions we cannot to-day mobilize three. Even if we rule out the possibility of intervening in another European war, as I believe we can and should, we are quite unprepared to deal with any serious emergency in the Middle East,

on the Indian frontier, or in the Far East. Last, but not least, our Navy has been reduced since 1914 from 19 capital ships to 15, from 108 cruisers to 50, from 322 destroyers to 118, and from 74 submarines to 48. On the other hand, its strategical problem, essentially simple in 1914, has become far more complex with the dispersion of possible sources of danger, more particularly with the emergence of Japan as a Naval Power claiming a nominal parity which would give her the undisputed supremacy of the whole Eastern hemisphere, with the re-emergence of Germany as a Naval Power with a brand-new navy on a 35 per cent basis, and with the growth of Italy's naval and colonial ambitions.

What our naval requirements will be can only be known with certainty after the negotiations for a possible resumption of the Washington Treaty have taken place. One may still hope that those negotiations may lead to some sort of compromise on actual strengths, or at any rate to some measure of "qualitative" limitation, i.e. in respect of the size and gun calibre of different types of vessels. But it would be idle to imagine that we shall be faced with less than the rebuilding of our now obsolete battlefleet at its present strength, at the very least, and a very substantial increase in aircraft carriers, cruisers, and smaller craft. Even if we follow the example of the Naval Defence Act of 1889 and raise a Naval Loan of, say, £150,000,000 for the actual rebuilding programme, we must be prepared to see our Naval Estimates rise during the next decade to £75,000,000 or £80,000,000. When it comes to the Air Force, the best that can be hoped from the impending negotiations for an Air Locarno between France, Germany, and ourselves is stabilization at something like the present French figures, and future Air Estimates in the neighbourhood of £30,000,000. Nor can any effective reorganization of the Army, even on its present mainly police footing, be carried out without bringing up the Army Estimates to at least £45,000,000. The "additional expenditure" referred to in the White Paper as necessary for our security cannot then well be put below some £30,000,000 a year, and we must be prepared to face total defence estimates of at least £150,000,000.

These may seem large figures. But a nation which spends more than three times that amount on its social services cannot afford to shrink from the sacrifices involved in maintaining the security upon which its whole social life depends. Nor will these figures seem so onerous once we have resumed our forward march to prosperity under a new national and Imperial economic policy. The added cost would, indeed, be more than saved on unemployment expenditure alone. What we have to do then is not to shirk the responsibilities involved in our defence, but to apply ourselves with all the greater energy and boldness to the task of economic regeneration. We dare not discard our armour; let us see to it that our shoulders are stout enough to carry it unflinchingly.

## CHAPTER VII

### OF ECONOMIC POLICY

IF there is need both of clear thinking and of co-ordination in the realm of Foreign Policy and Defence, and as regards the different elements of our defensive equipment, that need is even greater in the field of economics. The world, and we ourselves, are passing through a fundamental change in outlook on economic problems. The old economic individualism, child of the eighteenth-century rationalism, is giving way to an economic nationalism, or Imperialism, the joint product of modern nationalism, modern democracy, and the modern biological conception of the state. Of all nations we have, so far, been the slowest to face the new world situation and to reconcile ourselves to a completely new angle of vision. In so far as we have done so, we have done so instinctively rather than deliberately, with a tendency to give any reasons for our action rather than the real ones. This tendency has not been diminished by the circumstance that the great change in national policy is being carried out by men some of whom still, at heart, believe in the old economic theories, while others, as colleagues in the same Cabinet, are tactfully anxious not to stress fundamental differences in outlook.

It is not altogether surprising then that our recent policy should have been, in many respects, incoherent and inconsequent. This weakness has been emphasized by a Cabinet system which is incapable, by its very structure, of framing or enforcing a clearly thought-out policy, and under which individual Ministers and Ministries are left free to pursue their personal and departmental policies, however inconsistent or contradictory. Thus, while the Chancellor of the Exchequer, in his personal capacity and in relation to the field of tariffs—which normally fall within the purview of the Board of Trade—was the chief driving power in introducing Protection, he has in monetary matters pursued, in practice if not in profession, a Treasury and Bank of England

policy, essentially internationalist in its outlook. The President of the Board of Trade, on the other hand, while accepting and defending tariffs, still seems to think only in terms of export policy, and to regard domestic production as well sacrificed if a comparatively small increase of exports can be secured in its place. In a government professing to base its whole hope for the future on the development of Empire trade, he was allowed by colleagues, no doubt unaware of what he was committing them to, to make treaties by which we are precluded, tied hand and foot, from extending any further preferences to the Empire on meat, beyond the wholly inadequate concessions agreed to at Ottawa, and are, indeed, only allowed to protect our own farmers against Argentine competition on condition that Dominion imports are cut down proportionately to Argentine imports. Headed off from dealing by monetary measures with a price depression due mainly to monetary causes, forbidden to protect British farmers in respect of their most important products by the simple and flexible expedients of duty or duty plus subsidy, the President of the Board of Agriculture has found himself forced into the position of having to fight with the Dominions over the crumbs left over from the Argentine table, and of experimenting with every kind of mechanical scheme for quantitative control from which one can only hope that we may gain much useful experience.

If we had unlimited time at our disposal, if the whole international and Imperial situation were not so critical, if the British public were likely to be content to remain without definite guidance, and to accept with enthusiasm such tangible results as may gradually emerge from the policy of muddling through by trial and error, then there would be no reason for impatience. But all the time the tide is flowing strongly against us unless we make use of the favourable wind while it lasts and sail a straight course. An unnecessary misunderstanding with the Dominions over the fulfilment of our mutual Ottawa pledges, a breakdown in our highly experimental agricultural policy, the failure of an election, may any of them set back our prospects as a nation and as an Empire for a generation

and, indeed, for ever. We must have a clear and coherent policy, a definite and intelligible purpose. Alike our policy and the decision and swiftness with which we carry it out must capture the imagination and enlist the devoted support of our fellow-citizens at home and throughout the Empire.

What the main lines of that policy must be should now be obvious. It must be national and not internationalist. The test of every measure must be that it should contribute to the strength and prosperity of the nation as a whole, irrespective of its convenience to individuals or to sections of the community. In so far as freedom of action, initiative, the desire for profit, are all essential elements in a healthy economic activity, to that extent they should be encouraged. If control and regulation are required in the national interest, they should, wherever possible, take the form of general legislation, fiscal or otherwise, encouraging nationally beneficial activities, rather than of mechanical schemes directly interfering with individual freedom, or of the substitution of bureaucratic state management for private enterprise. But the national interest must prevail, and individual profit must cease to be regarded as an end in itself.

It must also be Imperial. Not only is the Empire an essential element in our wider patriotism and an inseparable part of our spiritual selves, but it alone can provide an economic foundation broad enough for the full development of the economic life of each of its communities. At the same time the Imperial economic structure which we build up must conform to the facts of our constitutional relationship. It must be based on a free and flexible co-operation compatible with the full control of each Parliament over its own affairs. It must at no stage sacrifice, or even seem to sacrifice, the welfare of any partner to the development of the whole. Give and take there must be, as well as room for definite agreements of definite duration. But these should be the ratification, for the sake of businesslike certainty, of what each can afford to give to the other in the way of mutual help, rather than hardly driven bargains involving unpalatable concessions. It is effective mutual protection against the outside world, the reciprocal harnessing of our creative surplus purchasing power, upon



which we should lay the main stress, rather than upon limiting our several freedom to protect our domestic markets against each other. Freer inter-Empire trade is no doubt desirable, up to a point. But it should be the outcome of a reasoned conviction on the part of each member of the Commonwealth, and not of British pressure animated by a lingering Free Trade bias which still regards Dominion protection as in some sense anti-Imperial or unfriendly to this country.

### I. MONETARY POLICY

The foundation of all sound economic policy is a sound monetary policy. No factor in history, as has been pointed out earlier, has been more potent to bring about social and political revolution, than changes in the value of money, insidiously altering the essential conditions of every contract and of every debt. The individualist-internationalist economic system was only possible on the condition that there was a common basis for international contract and for that continuous international investment and reinvestment of capital which was essential to the continuance of even a moderate measure of world Free Trade. That common basis was furnished by the gold standard system (gold and silver standard up to 1873), which was managed and controlled in a purely international spirit by the City of London. But, as has already been made clear, that system, while for a time it coincided with our interests, was becoming increasingly a source of weakness. When its control fell into the hands of a country like America whose policy was essentially national and not international, it broke down with disastrous consequences for the whole world.

We escaped the worst of those consequences by being forced off the gold standard, sorely against our will, nearly four years ago, when the wholesale price level had fallen 25 per cent, while in the case of the gold standard countries it has fallen another 25 per cent since. We then discovered that, accompanied as we were by the whole British Empire, with only two important exceptions which followed later, and by many closely connected foreign countries, we remained

immune from all the terrible shock to our economic system that panic-stricken bankers had foretold. On the contrary, our price structure has retained a far higher degree of stability than that of the rest of the world. Industry has flourished, at least relatively. Debts within the sterling area have been paid, and mutual confidence maintained. But these gains were, in the main, purely negative. We escaped being carried on into worse disaster with the gold standard tug because our towline parted. We have been carried a little in the direction of a restoration of the wholesale price level by the tidal wave set in motion across the Atlantic by President Roosevelt<sup>1</sup>. But we have made very little positive use of our regained liberty. In spite of occasional general government statements as to the importance of restoring the price level, and even of more formal declarations such as the joint Empire Declaration of 1933 (see p. 109), there is no sign that those in authority have any clear idea that they are really free to control our own monetary affairs, or any definite scheme of Empire monetary policy which they wish to build up.

The trouble is that in these matters the opinion which is still authoritative, in fact if not constitutionally, is that of a small City circle, and in particular of the Governor of the Bank of England, men steeped to the marrow in the old internationalist outlook, and temperamentally incapable of understanding what is meant by a national or Imperial policy. Within this circle the restoration of a world gold standard, in some form or other, is still regarded as the supreme object of policy; partly because they cannot bring themselves to believe that any money not based on gold is really "sound" money; partly because in their eyes the restoration of international trade, and still more of international lending, is an end in itself, and because they

<sup>1</sup> The wholesale price level in this country which had fallen by 25 per cent below the 1928-29 level when we went off the gold standard in September 1931, had recovered by less than 4 per cent by September 1934. The recovery, however, in basic raw materials has been more substantial, the figures, according to the *Board of Trade Journal* of January 24, 1935, being 69·5 in September 1931 (1930 = 100), and 83·6 in September 1934. In the case of foodstuffs the increase was only from 85·8 to 86·4; in the case of manufactures from 91·0 to 94·6; and of all articles from 84·2 to 87·5.

cannot understand that it can be to our interest as a nation and an Empire to concentrate upon national and Imperial trade and investment. Our monetary policy, consequently, tends to work continuously in opposition to our general economic and national policy. It will only be brought into line when statesmen realize that national and Imperial monetary policy is their business, for them to direct, just as much as fiscal or foreign policy, and cannot be left to so-called "experts" whose interests, however legitimate, by no means necessarily coincide with the general national interest.

The most important attribute of money in a civilized community is its stability of value in terms of goods and services (see p. 103). At bottom that is a quantitative relationship, the total money available (allowance being made for the rate of circulation) being the measure, in terms of money, of the total wealth of the community. What matters most, therefore, is that the volume of money should be kept in a constant relationship to the general production and wealth of the community. What the money consists of is immaterial providing that the public can trust the issuing authority not to destroy the prime function of the currency, either by over-issue, e.g. to cover up a chronic budget deficit, or by under-issue, e.g. to suit the deflationary interests of bankers and other creditors. That paper money should be backed by gold or securities is partly a notion surviving from earlier times when the precious metals alone were really thought of as money, and partly a precaution to prevent governments being tempted to meet immediate needs by the issue of unwanted currency. In a country like ours we have long ceased to think in terms of gold, and the retention of a gold reserve behind our note issue is, as the Macmillan Committee pointed out (see p. 331), for domestic purposes at least, a pure superstition.

The main advantage of a reserve of the precious metals lies in its international aspect. They are in universal demand; their total available volume, though liable to very serious fluctuations, cannot be multiplied indefinitely by governments in difficulties; their indestructibility makes them peculiarly suitable for hoarding, their high value for conveyance from one country to another. Whereas the currency of any par-

ticular country, in the last resort, is only a right to goods and services in that country, they constitute a *de facto* claim to goods and services anywhere. They are, in fact, a convenient tangible form of universal credit, and as such well suited for the settlement of a final balance of credits between countries after all other exchanges of goods and services have been taken into account. The international gold standard, however, aimed at something going far beyond the use of the precious metals for the settling of ultimate balances. By making each national currency convertible, on demand, into gold, and vice versa, at a fixed rate in terms of that currency, it gave to all currencies a fixed value in relation to each other. From the point of view of international trade, and still more of international lending, this was an immense convenience, and so long as these things were considered as ends in themselves, a supreme consideration. But it deprived each nation of any real control of its domestic currency, which became automatically a mere section of a world currency system.

This would not have mattered if the world system had been one which could maintain a stable price level for all countries. Experience has shown that this is not so. A variety of purely fortuitous and irrelevant reasons, such as the absence over a period of expanding industrial activity of any important new discoveries of the precious metals, the demonetization of one of them, the pursuit of a vigorous protectionist policy by one or more great creditor nations (see pp. 96-104), all could bring about, and have brought about, world-wide deflation, fall in prices, dislocation, depression, unemployment and ruin, all of which have been accepted as ineluctable natural phenomena, connected, indeed, by some ingenious theorists with the greater or less prevalence of spots in the sun! To be tied to such a system, so contrary to every modern instinct of national economic independence, and so dangerous and often disastrous from the national point of view, however convenient to international investors, and to a lesser extent international traders, has become an anachronism. To attempt to restore it, now that it has broken down—as it was bound to break down—would be sheer insanity.

This does not mean that a world gold standard system could not be invented which secured both stability in the price level and parity between the currency of different countries. Theoretically, at least, it could be secured by the general adoption of the Irving Fisher principle of the "compensated gold standard," under which each national currency would be convertible into gold (or gold and silver) not at a fixed rate, but at a rate varying with an agreed index figure of gold prices. In practice it is very doubtful whether any such solution would any longer be acceptable. Apart from the minor difficulty of agreeing upon the basis of calculation for the index number, the whole instinct of nations which have once enjoyed the unfettered control of their currency will be against abandoning it even for a system which secured for them internal stability in the price level as well as external parity. A nation like the American, passing through a great social reconstruction, may well prefer to be free to use far-reaching changes in the internal price level as the easiest means of restoring the social balance. An ambitious expanding nation like Japan, determined at all costs to conquer new markets, may find in a deliberately depreciated currency the most immediately convenient form of domestic protection and export subsidy. What theoretical considerations of general world advantage are going to induce them to tie themselves even to the best devised international scheme?

Besides, if the tendency of world evolution is, as I have insisted, away from internationalism and towards the formation of definite economic groups based on permanent political association, then the main inducement for the creation of international monetary parity disappears. If purchasers in each community are to be encouraged by every conceivable device to buy home first and group or Empire next, why should governments counteract these measures by establishing a system whose object is to facilitate trade with the world at large? If investment is in future to be judged strictly from the national or Imperial point of view, then increasingly severe restrictions are bound to be placed on all freedom of investment outside Imperial or group boundaries. A single example may suffice. Between

1923 and 1933 some £38,500,000 of British capital were invested in Japan. In 1930 the Westminster Bank and the Hong Kong and Shanghai Bank between them lent the Yokohama Specie Bank<sup>1</sup> £12,500,000 (including no doubt a good deal of Lancashire money) to finance the Japanese cotton industry. From the old internationalist point of view nothing could have been more desirable, if the transaction was profitable to the banks concerned. From the national and Imperial point of view the suicidal nature of the transaction is self-evident. We need no inducements to encourage investment in Japanese industry!

Very different is the case for securing currency parity, as well as price stability, within a nation group or, in our case, within the Empire. Where the strength of every member is considered as part of the permanent strength of a wider whole, where the policy of each partner is to encourage trade within the partnership, then there is every inducement for securing the conditions which will encourage the freest possible flow both of trade and of capital. A group currency system can be based on either or both of the precious metals. Or it can be based mainly on a paper or security basis administered by some central issuing authority set up by mutual consent. Or it can be based on the currency system of one member of the partnership, the others tying up to it, as they used to tie up to the gold standard, by the simple device of holding, against their currency, sufficient of the currency or marketable securities of that member, to enable them always to keep their exchange at parity.

It is this last method upon which the affairs of the "sterling convoy" are at present conducted. A number of governments such as those of the West African, East African, and Malayan colonies, of Palestine, and of Iraq have currencies legally based on sterling, with a sterling security reserve covering their whole issue, and at all times convertible into sterling at par. Other governments, both inside and outside the Empire, work more informally on the same general principle, which is that of treating sterling as an ultimate measure of realizable value—a new precious metal in fact. That sterling should have acquired this quality

<sup>1</sup> See C. Hollis, *The Breakdown of Money*, p. 29-30

is due to several circumstances. First among these stands the world-wide confidence in the integrity and prudence of the British Government and of the Bank of England, between whom the control of sterling policy is divided. The second is that this country's double interest, on the one hand as a great industrial and exporting nation, and, on the other, as a great creditor, in terms of sterling, provides an automatic guarantee both against excessive deflation which would wreck our trade, and against excessive inflation which would throw away the profits of our external investments. The third is that the sterling system already enjoys so wide a range that a sterling security or sterling credit are as easily marketable as gold or silver.

Our business is not to hanker after the relatively unimportant, and at this moment dangerous, object of restoring a world monetary parity, but to concentrate all our efforts on strengthening and consolidating the sterling system. To do so it is essential that those who control it should continually bear in mind the interests, not merely of the City of London as a credit centre, or even of this country as a whole, but also of all the members of the "convoy." In that respect we have so far failed to do full justice either to the needs of British industry and agriculture, or to those of the rest of the Empire, owing to the steady deflationary pressure of the City influence. The British Government was vainly warned at Ottawa of the danger of delay in restoring a reasonable price level. If New Zealand was subsequently forced to devalue her currency; if Denmark and the Argentine followed suit and went even further; if the result has been disaster to the British farmer; if the Indian financial situation still endangers the prospects of the new constitution; if the development of our Colonial Empire is almost at a standstill—these things are directly attributable to our failure to heed the warnings given by the Dominions and India at Ottawa. The situation, indeed, would have been even more serious but for President Roosevelt, who, in the monetary sphere at any rate, has made some contribution to the general recovery, a contribution which we could have made more skilfully and more effectively ourselves.

A similar disregard for the Imperial aspect of monetary policy has been shown in the consistent hostility of the City to any measure aiming at even the partial rehabilitation of silver as an element in the world's currency. It is unnecessary to labour here the grievous injustice inflicted upon the people of India by the demonetization of silver between 1873 and 1893. Sufficient to say that while the official currency of India to-day is on a paper basis linked to sterling, silver still constitutes the chief hoarded reserve of the peasantry as well as the chief reserve asset in the Indian Treasury. To co-operate to raise the price of silver by encouraging its use both outside the Empire and in the sterling system, in so far as some reserve of precious metal is required for international purposes, would seem to be one of the most obvious first duties of the British Government and of the Bank of England. This is just one of the things which may make all the difference between success and the failure of our great experiment in launching India on the path of self-government. But on this issue the gold fetish which has obsessed our bankers has, so far, prevailed over all Imperial considerations. It is, indeed, once more President Roosevelt, and not our own Government, that we have to thank for such improvement in the silver position as has resulted from his single-handed efforts.

Some fuller measure of inter-Imperial consultation and consideration is clearly required if sterling is fully to meet all the needs of the Empire or of other countries that may attach themselves to the sterling convoy. It may be that, following the line of least resistance, the requirements of the situation can be met by some system of regular conference and consultation between the central banking authorities concerned, carrying out a general policy agreed upon between their governments, as well as, possibly, by changes in the composition of the Board of the Bank of England itself, giving it a more national and Imperial and less purely "City" outlook. The logical solution, indeed, and one to which there seems no inherent constitutional or practical objection, would be the setting up, by the central banking authorities of such parts of the Empire as wish to take part in it, of a Central Bank of Empire, which could act



as a clearing bank for all of them, and as the source of a "money of account" which would be the basis on which the several currencies would be issued and by which they could be kept at parity. The method, however, is a minor matter, providing only the governments concerned are at one in agreeing upon the common end of making the strength and adaptability of the sterling system their main monetary objective.

Meanwhile the responsibility for the price level of sterling rests with the Government of this country. One important step towards the restoration of a better price level has been taken in the shape of large-scale debt conversions and the consistent maintenance of a low rate of interest. In normal times that might have been enough, of itself, to induce capital to flow rapidly into the better remunerated field of industry and so, by increasing credit and circulation, raise prices. To some extent, indeed, this has taken place; low interest rates have, for instance, undoubtedly contributed to the great development of the building industry in the last two years. But, on the whole, capital has been reluctant to respond to so mild a stimulus, and the more vigorous measures which the critical situation has demanded have not been forthcoming. Of these, public works are the most frequently discussed. These are no longer open to the objections rightly urged against them when we were still on the gold standard and when their effect could only have been a trifling contribution towards raising the world price level, and when, at the same time, under Free Trade, much of the purchasing power created by them would have been immediately dissipated on the world at large. Their value, in any case, is not to be measured by the direct additional employment afforded, which is trifling, as by their effect upon the credit and monetary situation.

But the same result can be achieved more effectively and cheaply by the direct stimulation of industry. The simplest and most obvious method is that of protection and preference applied at home, in the Empire, and, so far as its monetary effect is concerned, to the whole sterling area, sufficiently determinedly to create a new rush towards production and

a demand for fresh capital—the very reverse of the policy of raising prices by the restriction of output which we have tended to favour. Where these devices are not sufficient to meet the situation, there is the alternative of the direct stimulation of industries like cotton, shipping, and ship-building by subsidy, or by loans for reconstruction and re-organization. There is room for a bold recasting of the Income Tax laws so as to encourage instead of discouraging the putting back of profits into business, even if so doing involved a temporary budget deficit. A natural and necessary corollary to such a policy would be the direct encouragement, and not discouragement, of sterling loans to the Empire (e.g. to enable Canada to pay off as much as possible of her American indebtedness) and to sterling countries, and, in particular, a bold policy of loan expenditure on the development of the Colonial Empire and of such new enterprises as inter-Imperial air services. The desirability, on purely defence grounds, of a large naval loan has already been suggested in an earlier chapter. No other form of direct public expenditure would give so effective a stimulus to price levels, as well as to employment, more particularly in the depressed areas. There are no insuperable difficulties to achieving the end in view, namely the restoration of the normal price level of 1928–30, if only we know our own minds. The real obstacle to recovery lies in half-heartedness, in that continual compromise between contradictory economic policies, which has marked the handling of the situation by the present Government, and which has, perhaps, been inevitable in a period of intellectual transition.

The actual monetary principles on which our sterling issue is based, no doubt, also require some reconsideration. As the Macmillan Committee pointed out, it is, under modern conditions, absurd that the Bank of England's gold reserve should be in any way regarded as the basis of our internal currency, or that the volume of that currency for domestic purposes should be dependent on the amount of precious metal at that moment in the vaults of the Bank.

“The present system . . . is wrong in that it associates the amount of the gold, which the Bank of England should hold immobilized and unavailable for export, with the amount of the active note cir

ulation. Formerly, when the Bank's gold was held for two purposes, partly to meet an external drain, and partly to meet an internal drain, it may have been reasonable to earmark a substantial part of it for the latter purpose. But now that the second purpose has disappeared, and has in fact been abolished by law, so that the gold reserve of the Bank is held for no other purpose than to meet a foreign drain, the effect . . . is to forbid the Bank to use the greater part of its gold for the only purpose for which it is held or could be used."

The rigid linking up of gold and currency which compelled the contraction of domestic credit because some quite fortuitous circumstance, like an American boom or a Paris panic, withdrew our gold, and only enabled domestic expansion to take place when the foreign exchanges were favourable, had become a mischievous anachronism. The Committee, therefore, suggested getting rid of the present system by which the total volume of currency is determined by the amount of gold in reserve (still reckoned at the wholly unreal figure of £3 17s. 10½d. the ounce) plus a fiduciary issue based on securities and limited normally to £260,000,000, and substituting a single overhead total, provisionally fixed at £400,000,000, of which the proportions, as between gold and securities, should be left to vary freely according to circumstances. The figure of £400,000,000 was, no doubt, taken as a convenient maximum not likely to be exceeded in the near future—and as a possible danger against any tendency to inflation. Theoretically speaking, no arbitrary limit is necessary, the ordinary bank rate procedure and the sale of securities by the Bank affording sufficient protection in that direction.

The purely quantitative control thus exercised over our currency may well, in competent hands, be all that is required. The advantages of the American system under which currency is based, mainly, not on securities or gold, but on self-liquidating short-term bills of exchange, have been warmly advocated, and there are attractions in the idea of an automatic expansion or contraction of the currency corresponding to the changes in the volume of genuine business transactions. But it is not necessarily better than the system of direct quantitative control, providing that in future those who exercise the control do so from the national

and Imperial point of view, from the point of view of production, employment, and development, and not primarily from the point of view of the banker and the money lender.

To talk, however, in this connexion of the desirability of nationalizing the Bank of England, or the banking system generally, is simply to repeat the ordinary Socialist fallacy that defects in our existing system can only be remedied by state administration, instead of realizing that the function of the state is not *administration*, but the general *direction* of policy. So far as our monetary policy is concerned, the Government has to-day all the powers required over the Bank of England's Issuing Department. What is lacking is not the legal power, but the realization that national monetary policy is, in the first instance, a matter for statesmen and not for bankers, however useful the latter may be when it comes to its actual execution in detail; for the Cabinet as a whole and not a private domain of the Treasury, in practice controlled by the Governor of the Bank of England. Given that new conception of the Cabinet's duty to face the responsibility for general monetary policy—as well as, possibly, such minor changes in the composition of the Board of the Bank of England as have been suggested above—there is every advantage in retaining, for the day by day administration of that policy, an existing non-political body whose independence, high character, and long experience have given it a world-wide authority.

The belated realization of the immense significance of monetary policy in national life has, indeed, recently opened the floodgates to a mass of theoretical disquisition, and to the propounding of a number of ingenious schemes, some of which would certainly seem to justify the suspicion with which all advocates of monetary reform have often been regarded by the man in the street. Some, no doubt, deserve careful study, however revolutionary they may appear at first sight. For my present purpose, however, it is sufficient to insist, with the Macmillan Committee, that in monetary matters:

“An era of conscious and deliberate management must succeed the era of undirected natural evolution. . . . The monetary system of this country must be a Managed System. It is not advisable, or

indeed practicable, to regard our monetary system as an automatic system, grinding out the right result by the operation of natural force aided by a few maxims of general application and some well-worn rules of thumb " (Macmillan Committee, paras. 9 and 280).

Such management must be on the lines which conform to the general trend of our economic policy. In other words, it must be national and Imperial, and not internationalist, in outlook. Our present sterling system only needs a very moderate adjustment in detail to meet all our requirements in that respect. It can secure both price stability and parity of exchange for the whole Empire and for such other countries as choose to come within our monetary orbit, without interference from the rest of the world or dependence on the available supply or temporary value of the precious metals. At the same time it is still free to use those metals for settling such balances as may, from time to time, require to be dealt with in relation to the rest of the world, and, if ever conditions should favour it, to arrange for temporary or permanent parity with other important monetary systems. A definite sterling policy is an essential element in any Empire policy.

A natural corollary of any Empire monetary policy, and, indeed, of any policy of Empire development, is the regulation of investment. The idea that it is all one to a nation where its citizens invest their money is even more absurd than the idea that it is all one where they buy, or where they go as migrants. Whatever the advantage to us of our policy of promiscuous investment in the earlier years of the Free Trade system, it has in recent years mainly served to strengthen our chief competitors and to drain away resources needed for our own development. In a crude way the outflow of capital has been regulated in the last few years, but from the purely financial point of view, and not with any positive aim of developing Empire resources. What is wanted here, as in the field of economic policy generally, is not so much direct restriction and control, as legislation differentiating, in respect of taxation and otherwise, between Imperial and extra-Imperial investment and, indeed, also between favoured and less favoured fields of investment outside the Empire.

As a matter of fact the present scale of stamp duties on the issue and transfer of stocks and shares of all kinds is full of glaring anomalies, almost all in the direction of favouring foreign as against British investment.<sup>1</sup> A drastic revision of the whole scale is imperative, and could be secured without serious loss of revenue, on lines approximately halving the present scale for British investment, and raising the foreign scale, both for issue and for transfer, to at least double the British scale. If regulation in greater detail of foreign investment should prove to be required, that is a matter which might be left to some special advisory committee, preferably one constituted in connexion with the general machinery for Empire economic co-ordination which I have advocated in an earlier chapter.

Mention may be made here of the interesting constitutional point which has been raised in connexion with the valuable preference to Dominion Government securities embodied in their admission as Trustee Securities under the Colonial Stock Act of 1900. Under that Act the Treasury demanded, as a condition of admission, a formal expression of opinion by the Dominion Government concerned that any legislation injurious to the stockholder or varying the terms of his original contract might properly be disallowed. That condition, in practice a pure formality, was, however, so obviously inconsistent with the present relationship of the Dominions to the British Government, as to threaten to bring this valuable measure wholly into disuse. The difficulty has recently been solved, as between the Union of South Africa and this country, by a bilateral agreement in which a formal undertaking by the Union Government replaces the old reference to disallowance, subject presumably, though no express provision is made to that effect, to arbitration in case of a subsequent disagreement arising.

## II. INDUSTRIAL PROTECTION

The breakdown of the gold standard precipitated the long overdue revolution in our fiscal policy. After nearly

<sup>1</sup> For a detailed account of these anomalies see the author's *A Plan of Action*, pp. 243-53.

ninety years the passionate and prophetic closing sentences of Disraeli's final speech of protest against Peel's surrender to the theorists found their fulfilment:

"It may be vain now, in the midnight of their intoxication, to tell them that there will be an awakening of bitterness; it may be idle now, in the springtide of their economic frenzy, to warn them that there may be an ebb of trouble. But the dark and inevitable hour will arrive. Then, when their spirits are softened by misfortune, they will recur to those principles that made England great, and which, in our belief, will only keep England great. Then, too, sir, perchance they may remember, not with unkindness, those who, betrayed and deserted, were neither ashamed nor afraid to struggle for the 'good old cause'—the cause with which are associated principles the most popular, sentiments the most entirely national, the cause of labour, the cause of the people, the cause of England!"

It is "the cause of England" which is, at long last, in the ascendant over the theories which enslaved us for nearly a century. It is the same cause which must now, by bold action and by clear conviction, be made to prevail and take root as an established faith, lest we become once more the slaves of theories, whether their inspiration comes from Russia, from Italy, or from Germany. Only to-day England has a wider meaning than even Disraeli conceived, and to-day, even more than in his time, is it essential to make it clear that the cause of England is also "the cause of labour, the cause of the people."

There is much to be said for the view that so great a change should have been introduced by those who believed in it whole-heartedly and on principle, who could expound it clearly, and who, having studied its working, could have made the fewest mistakes in its application. The leaders of the Conservative Party had, during many months in 1930 and 1931, worked out a complete emergency tariff which was to have been introduced, in advance of any possibility of forestalling, the moment a Conservative Parliament assembled. It was on an *ad valorem* basis, with three main scales of duty, the maximum, on finished articles, being  $33\frac{1}{3}$  per cent. With a rate very little more than the total cumulative incidence of rates and taxes on domestic production, it was thus more in the nature of a countervailing

tariff redressing the unfair advantage hitherto enjoyed by foreign competition, than a high protective tariff. A Tariff Advisory Committee was to have been set up at the same time to deal, on the general basis laid down, with possible mistakes in detail, with questions of drawbacks and remissions, and with the conversion of *ad valorem* into specific duties. From the point of view of industrial recovery, as well as from that of public understanding of government policy, such a clear-cut scheme, promptly executed, would have been far better than the course actually pursued.

Unfortunately, though everyone knew that a change in fiscal policy was inevitable to save industry from general collapse, that it was expected by the country, and would, in any event, be insisted upon by an overwhelming majority in the House of Commons, it was part of the ritual of make-believe required by the circumstances of a coalition government to pretend that the question was perfectly open, and would be, for some months, the subject of "impartial" Cabinet investigation. The obvious criticism that such a procedure was bound to lead to dumping on a scale that might defeat the operation of the future tariff for months, if not for years, was met, for parliamentary purposes, though far from met so far as the needs of industry were concerned, by an emergency Act enabling very high duties to be arbitrarily imposed on evidence of excessive importation.

When a decision was finally come to—and that on the absurd condition that members of the Cabinet who disliked the Cabinet proposals should be free to appeal to Parliament and the country to reject them—it was still largely based on pretence. The Import Duties Act of 1932 made no attempt to impose any kind of tariff adjusted to even the most obvious needs of industry, and, on the face of it, did no more than impose a flat rate 10 per cent duty on all foreign imports, with a few exceptions, a duty which might lull Free Trade fears as not really protective, and as at most intended to reduce the excessive adverse balance of trade. But provision was made for the setting up of an Import Duties Advisory Committee which might, after investigation, recommend "additional" duties. Sir George May and his colleagues wisely interpreted their task as a general



authority to convert the 10 per cent into an all-round mildly protective tariff, many of whose items were announced within a few weeks, and in the course of a year or so a tariff system was arrived at substantially identical with the unofficial Conservative Tariff which, but for the needs of political make-believe, might have been introduced in the first fortnight.

It is obviously desirable that our tariff system should be as flexible as possible and that its detailed provisions and their modification from time to time should be kept outside the purview of parliamentary lobbying. For this purpose an independent, judicially minded authority, such as the Import Duties Advisory Committee has shown itself to be, is an essential element of success. It can safely be said that the Committee has won the complete confidence both of the industrial world and of the general public. That does not affect the doubts which must be felt about the advisability of entrusting to such a body, not only the detailed adjustment of a tariff whose general outlines have been given them, but a completely free hand as to the kind of tariff they are to impose. The latter is a question of policy which can only be settled by a government, for only a government can decide such broad issues as the extent to which it wishes to show special favour to agriculture or to any other industry for social or defence reasons, the relative importance which it assigns to home, Empire, or foreign trade, or the margins which it may wish to have in hand for negotiation.

In spite of unnecessary delays and uncertainties, the success of the tariff, once in operation, has been beyond all question. It has fulfilled, in some directions even beyond expectation, every assertion of its advocates. It has disproved, conclusively, every one of the theoretical objections and fears which were so potent a weapon of Free Trade propaganda for a generation. It has increased employment in the home market and, at a time of immense difficulty, improved our actual and still more our relative position in the export market. It has involved no hardship to the consuming public or to our exporting industries; except in occasional instances the transfer of production from foreign to home producers under the security afforded by the tariff has not raised prices; in many cases the economy of

increased output has brought about an actual reduction in the cost of British production. Without sacrificing the main objective of giving the British producer reasonable security in his own home market and so increasing domestic production and employment, and the revenue indirectly resulting from them, the Import Duties Act, 1932, has, incidentally, contributed to the Exchequer a direct revenue, amounting last year to £24,000,000, which it would have been difficult to replace from any other source.<sup>1</sup>

The immediate effect of the tariff was to bring about a substantial reduction of our imports of manufactures. These had gone up at a terrifying rate, from £217,000,000 in 1924, to £283,000,000 in 1930 and £288,000,000 in 1931 (revalued at 1930 prices). In 1932 and 1933 they were down to £185,000,000 and £190,000,000, a drop of some 30 per cent. Our imports of foodstuffs also showed some reduction, from £511,500,000 in 1931 to £491,000,000 in 1932 and £477,000,000 in 1933 (revalued at 1930 prices). On the other hand, our import of raw materials showed an increase, from £236,000,000 in 1931 to £242,000,000 in 1932 and £259,000,000 in 1933, the natural consequence of the transfer of our consumption from foreign to domestic production. The effect of this transfer upon production may be inferred from the Board of Trade Index of Production figures. Taking 1924 as 100, the figures for factory production in Great Britain recovered from 96·7 in 1931 and 97·2 in 1932 to 103·9 in 1933 and 117·4 in 1934, the figure for last year exceeding the highest figure yet reached, namely 115·5 in 1929. The general production figures over the same period were 111·8 for 1929, 93·7 for 1931, 93·3 for 1932, 98·6 for 1933, and 110·5 for 1934.

The slowness of the recovery in 1932 was no doubt due to the hesitation and fluctuation with which the change in tariff policy was introduced. Steel, for instance, made no appreciable progress until it was announced in October 1932 that the rates of duty would be guaranteed for two years. Since then the monthly average output for steel, which was 433,500 tons in 1931 and 438,500 in 1932, has

<sup>1</sup> A very useful summary of the effects of our protective policy is given in the booklet, *Future Fiscal Policy*, published by the Empire Economic Union.

risen to 583,600 in 1933 and to 738,300 for 1934 (853,000 for May 1935), the total output for the year 1934 being only 8 per cent below the 1929 figures. The building industry shows a similar progress, from 214,000 houses in 1932 to 310,000 in 1934, with a value of over £200,000,000. So does the motor car industry, with an output of 232,000 cars in 1932 and 257,000 in 1934. Both of these, like the iron and steel industry, are good indicators of general economic progress. They are confirmed by the following indices of business activity (1924 = 100) taken from the *Economist*:

#### PRODUCTION AND BUSINESS

	1930	1932	1933	1934
Employment, all trades ..	102 $\frac{3}{4}$	98	102	106
Postal receipts .. ..	118	116	118	120 $\frac{1}{2}$
Building activity .. ..	141 $\frac{1}{2}$	132 $\frac{1}{2}$	173	199
Imports of raw materials ..	101 $\frac{1}{2}$	97	105	115 $\frac{1}{2}$
Exports of manufactures ..	87	65 $\frac{1}{2}$	67 $\frac{1}{2}$	72 $\frac{1}{2}$
Movement of shipping ..	109 $\frac{1}{2}$	100	102	105 $\frac{3}{4}$
Provincial bank clearings ..	91 $\frac{1}{2}$	97 $\frac{1}{2}$	99	100 $\frac{1}{2}$
London bank clearings ..	140	120	122	131 $\frac{1}{2}$
Complete index .. ..	105·9	95·8	99·7	109
Freight train traffic, Jan.- Oct., Total (thousand tons)	847·1	683·4	682·4	743·1

The improvement has been relative as well as actual, as is shown by the following table (League of Nations):

#### COMPARATIVE INDUSTRIAL PRODUCTION

1928 = 100

	1931	1933	1934
U.K. . . .	88·8	93·5	104·7
Germany .. ..	73·6	69·0	85·8
U.S.A. .. ..	73·0	68·5	71·2
France .. ..	97·6	84·3	78·0
Italy .. ..	84·7	80·5	88·3

Not only has the general output of existing industries gone up, but many new factories have been started in order to make articles formerly imported. In many cases, too, foreign firms have erected factories in this country in order to continue to produce under the shelter of the tariff. The total number of factories established by foreign firms between 1932 and 1934 was over 160.

The effect of the general increase in production has naturally been reflected, in spite of the continuous advance in mechanization, in the volume of employment. The total number of insured employed persons rose from 9,377,000 in August 1931, to 10,180,000 in August 1934, and to 10,361,000 in June 1935. During the same period (August 1931 to August 1934) the live register of unemployed fell from 2,733,782 to 2,136,578, the figure for June 1935 standing at 2,000,110. The difference between the increase in employment and the decrease in unemployment is, of course, due to the increase of population of employable age, an increase not offset as in the years before 1930, and still more in pre-War years, by emigration.

These results have not been accomplished, as was prophesied, at the cost of the destruction of our export trade. On the contrary, our exports of manufactures have risen from £328,000,000 in 1931 (revalued at 1930 prices) to £337,000,000 in 1932, £347,000,000 in 1933 and £376,409,000 in 1934. These figures are, of course, a long way below our export of £551,000,000 in 1929 and £440,000,000 in 1930. But judged in relation to the general shrinkage of international trade, and to the ever increasing restrictions both upon importation and upon payment, this increase of 15 per cent over three years shows that British industry is at any rate holding its own in the world's markets. The United Kingdom's percentage of international export trade, which had fallen to 10.6 in 1931, now stands at 11.0, and, after falling in 1930 behind both the United States and Germany as an exporting country, it now once again occupies the leading position. Much of this improvement is undoubtedly due to the Ottawa and other trade agreements. But in part, at least, it has been due to the direct stimulus given to enterprise

by a more secure home market, and to the reduction of costs resulting from production on a larger scale. To put it at its lowest, Britain's export trade has not been killed, either by the theoretical reaction of reduced imports on exports or by the high costs and inefficiency of protection.

Nor has protection been followed by the prophesied rise in prices, in spite of the fact that it has been applied not only to manufactures but, either by tariff or quota, to the whole range of our importation of foreign foodstuffs. The United Kingdom Cost of Living Index, which stood in 1931 at 47½ over the figures for July 1914, fell to 44 in 1932 and to 40 in 1933, rising again slightly to 43 in 1934. It is not suggested, of course, that the fall has been due to any other cause than the general fall in world prices. But the facts at any rate warrant the conclusion that the effect of moderate protection such as we have had, especially when accompanied by Empire free entry, is a relatively small item in price movements. In any case, a generation which is increasingly having it brought home to its consciousness that the fall in prices has been the chief cause of depression and unemployment, is no longer likely to be scared by the boggy of protection raising prices. We have travelled far from the days when the suggestion of a duty of half a farthing on the wheat contained in a 4-lb. loaf, and a correspondingly trifling duty on foreign meat, could be denounced as calculated to reduce us to a diet of black bread and horseflesh sausages! Nor, indeed, can the argument that a duty is a tax which must be paid by the consumer in all circumstances, convince those who have seen producers in recent years willing to pay almost any duty in order to find a market.

On the other hand, evidence is increasingly accumulating to show that the tariff evolved by the machinery of the Import Duties Advisory Committee has already become largely out of date in a rapidly changing world, and is no longer acting as effectively as it was eighteen months ago. It must always be remembered that the tariff was, at the outset, supplemented, to the extent of an extra 20 per cent or more, by the effect of the depreciation of sterling as against gold currencies. This advantage has since dis-

appeared in a variety of ways. The various European countries which remained definitely on the gold standard have met the situation by a determined deflation in the form of reductions of wages, rents, and mortgages, as well as by drastic regulation of their imports and direct or indirect subsidizing of their exports. Some, like Germany, have, in addition to all these measures, gone off the gold standard in all but name, and in effect conduct their export business on a depreciated currency basis. The United States have devalued their currency to below the old sterling-dollar parity. Japan, after following sterling to begin with, has deliberately let her currency fall to a point at which her export price in many articles defies all normal competition. On the primary production side Dominion and Scandinavian devaluation, with Russian uncommercial selling always contributing to break the bottom of the market, have undermined the position still further. With the world market continuously contracting, as the monetary depression has increasingly compelled the nations to rely upon domestic trade and production, the pressure of competition to sell, at almost any price, has become ever stronger. A tariff devised to stand normal competitive pressures is proving clearly inadequate, for the time being at any rate, to the present situation.

The figures of our import trade leave no doubt on that point. While the general tendency of production and employment is still upward the rate of recovery is slowing down. But recovery is not slowing down because the employment available in the home market has now been fully absorbed. On the contrary, side by side with a steady and in itself satisfactory increase in the import of raw materials from £260,000,000 in 1923 to £272,000,000 in 1934 (1930 prices), and of semi-manufactures largely representing raw materials converted into the most convenient form for importation, the import of fully finished manufactures, instead of continuing to diminish, as it should, to the minimum figure compatible with the maintenance of some stimulus from outside competition, has been increasing at a disquieting rate. The retained imports in 1934 of purely competitive manufactures, i.e. excluding

non-ferrous metals and mineral oil, increased by 15 per cent over 1933 and 18 per cent over 1932. The increase in the case of iron and steel amounted to nearly 400,000 tons or 40 per cent over the 1933 figures.<sup>1</sup> The increase in motor cars amounted to over 7,000 cars or 244 per cent; in hardware 107 per cent; in machinery 48 per cent; in carpets 30 per cent. Imports of German and Japanese hosiery have nearly doubled in the last two years. How hesitatingly and half-heartedly protection has been applied will be evident when we note that the volume of imports of foreign manufactures in 1934 was only 24 per cent below the disastrous year 1931, and actually 22 per cent greater than in 1923, when Mr. Baldwin considered an immediate appeal to the country on this issue imperative. The fact that our export of manufactures in 1934 was little more than two-thirds of the export of 1923 shows, on the other hand, how much more drastic protection and restriction have become elsewhere, and how much less we can afford so high an import figure.

The whole economic situation, and in particular the unemployment figures, are far too serious to justify our leaving this general inadequacy of our tariff to be remedied by the dilatory method of individual demands for increased protection, carefully examined and eventually adjudicated upon by the Advisory Committee. One possible solution might be a collective application to the Committee by the whole of the great organized industries. The simplest and most appropriate, however, would be for the Government either to make a general representation to the Committee in favour of an all-round increase, or else, following the principle of its original 10 per cent flat rate tariff, to add another 10 or 15 per cent all round, subject to the more obvious exceptions and to reconsideration in individual

<sup>1</sup> The duty was raised to approximately 50 per cent in March 1935. The immediate result was that the Continental steel cartel, which had hitherto refused to come to any reasonable arrangement with the British steel industry, climbed down, and is now negotiating an agreement on the basis of a maximum importation into the United Kingdom from cartel countries of 670,000 tons for 1935-36 + 525,000 tons for the next four years, the British industry to retain the 1934 proportion of the export to neutral markets. A better illustration of the bargaining power of a really effective tariff could hardly be desired.

cases by the Committee, and with the clear intimation that the increase might be withdrawn, either as the outcome of treaty negotiation or in view of a general change in the world situation.

The disadvantage of not having such a margin for negotiation was made very obvious in the case of the commercial agreement concluded with Germany in April 1933. On that occasion Mr. Runciman, in order to secure for our coal export to Germany certain concessions to which we claimed we were in any case entitled, arbitrarily reduced a number of our duties, not only to Germany, but, owing to the operation of the Most Favoured Nation Clause, to all our competitors, without consulting the industries concerned and disregarding the fact that the duties had been carefully assessed by the Committee as the minimum required for the reasonable security of those industries, and, in one case at least, had been assured to the producers for five years. It is at least open to doubt, in that connexion, whether the additional employment afforded by the subsequent increase in our exports of coal to Germany has counter-balanced the loss resulting from the lowering of our duties to all the world over so wide a range of manufactures. Nor is the bargain, as a business deal, improved by the fact that Germany has recently deliberately made it almost impossible for her importers to pay for coal, even for coal which has already been imported.

### III. AGRICULTURAL PROTECTION

The beginnings of a protective policy for agriculture were introduced at the same time as for industry. A Horticultural Products Act passed in November 1931 gave a most useful immediate protection by tariff to vegetables and soft fruit, and has led to a great expansion of English market gardening. The potato acreage has increased nearly ten per cent since 1931 with the help of both duty and restriction. The general ten per cent under the Import Duties Act applied, for what it was worth, to most agricultural products except wheat, and, most important of all, meat. The case of wheat was dealt with under the Wheat



Act of 1932. By this measure a "standard price" of 10s. per cwt., or 45s. per quarter, is secured for a maximum of 6,000,000 quarters by a "deficiency payment" based on the difference between the standard price of the total crop and the ascertained average market price for the cereal year (August 1 to July 31). The deficiency payment is given as a flat subsidy, leaving the grower complete freedom to secure the best price he can by his skill in production or marketing. At the same time the imposition of a maximum tends to discourage the putting of unsuitable land under wheat as well as to limit the cost of the scheme. From the grower's point of view the scheme has worked smoothly and effectively and has been responsible for the greater part, at any rate, of an increase of some 600,000 acres or nearly 50 per cent in our wheat acreage, and of over 60 per cent in output. The one weak point in the scheme is that the money required for the deficiency payment, instead of being levied by a customs duty, most of which would, in present circumstances at least, have been paid by wheat growers abroad, is raised by a direct tax upon the consumer added by the miller to the cost of flour. The burden has, in fact, not been very serious, amounting on the average to less than  $\frac{1}{4}$ d. on the 4-lb. loaf. But it is a striking, though not unique instance of the curious mentality which has been so terrified of "food taxes" as actually to prefer a policy which was bound to make food dearer to one which would certainly not have had that effect!

The mainstay of British agriculture, however, responsible for over 70 per cent of its net output, namely meat in all its forms and dairy produce, was left over for discussion at Ottawa. There was much to be said, in principle, for this decision. These are mostly products in respect of which the United Kingdom is not self-supporting and could hardly be made self-supporting without inflicting the hardship of excessive prices on the consumer. Moreover, they are of such importance to the Dominions that their exclusion by a policy of insular high protection would seriously undermine the whole basis of mutual preference in the Empire. In spite of the critical urgency of the agricultural situation at home, this was fully recognized by all

the representatives of British agriculture who went to Ottawa or took part in the many months of discussions with the Dominions which preceded the Conference. They found, on the Dominion side, a complete acceptance of the British Government's right, in principle, to impose duties for the protection of home agriculture even against Dominion competition. But they agreed with the Dominions that, *provided foreign competition were effectively curtailed by adequate duties*, and, if necessary, by quantitative restriction as well, the market available for Home and Empire producers would be large enough to justify, at any rate for a period of years, the experiment of free entry of Empire produce. At no time has the conception of Empire agriculture as a single interest, looking to all the governments of the Empire to co-operate in sustaining it, emerged so clearly and powerfully as it did among the agricultural representatives who met in daily conclave at the outset of the Ottawa Conference.

Unfortunately, their outlook was not shared by the British official delegates. So far from conceiving their task at Ottawa as that of co-ordinating mutual protection for the Empire against foreign competition, in agriculture as well as in industry, the British delegates, led by Mr. Baldwin, took the general line that their main object was to secure the reduction of Dominion tariffs, primarily to ourselves, but with the idea that the reductions secured might be followed by all-round reductions at the World Conference. For these reductions they were prepared to make some concessions in respect of preferential duties on Dominion agricultural produce. But these were treated throughout as concessions, to be kept down to a minimum. This attitude entirely ignored the fact that what the Dominions were asking for was also the crying need of our own agriculture, and should have been granted in any case. It forgot that agricultural Britain was not the least of the Dominions, comprising a third of the white agricultural population of the Empire and producing more than a third in value of the total agricultural output of that population. Incidentally, too, it laid its main stress, not on the amount of preference we were prepared to give the Empire as against foreign

competitors, but on our guaranteeing of free entry to Empire produce, thus affording the home farmer neither protection against Dominion competition, nor that effective protection of both against the foreigner which might have made the former unnecessary.

The fact is that the British delegation was still largely Free Trade in outlook and, above all, obsessed with the irrational terror of "food-taxes" to which allusion has already been made. The preferential duties agreed to, where there were duties, consequently erred on the low side. As for meat, the British delegates, while formally and explicitly agreeing that the object to be aimed at was to secure higher wholesale prices, flatly refused—in view, no doubt, of the internal situation in the Coalition Cabinet—to consider any sort or kind of duty, however small. A wholly inadequate scale of quantitative reductions of foreign imports, not including beef, the one item of supreme importance to the British farmer, was finally accepted. But any attempt to press the obvious desirability of duties met with almost hysterical indignation, and, sooner than break up the Conference, the Dominions abandoned a demand which was even more in our own interest than in theirs.

No sooner had the British delegates returned from Ottawa, without having agreed upon effective measures either for raising the general sterling price level by monetary action, or for raising by fiscal measures the wholesale price of meat within the Empire, than they were confronted by the prospect of a complete breakdown of the British live-stock industry. It was too late now to secure such advantages as might have been secured from the Dominions at Ottawa by a less timid and short-sighted policy. But there was nothing in the Ottawa agreements to prevent the imposition of duties, or of further quantitative restrictions which would have given to British, and incidentally to Empire farmers, effective protection against foreign competition. The British farmer in his despair was determined to have protection, and in the new Minister for Agriculture, Major Walter Elliot, he found an enthusiastic and forceful advocate. But before the Cabinet could shake off its paralysing fear of duties, or really wake up to the gravity of the agricultural

situation, the door was "banged, bolted, and barred" upon it by one of its own members.

Mr. Runciman had been appointed to the Board of Trade on the principle, dear to the mugwump mind, that a policy should be carried out by those who dislike it and disbelieve in it, and can be trusted to do their best to thwart it in detail. He certainly justified this trust when, immediately after Ottawa, he negotiated the Argentine and Danish Agreements. By these and subsequent agreements we were precluded for a period of at least three years from December 1933 from imposing any duties on foreign meat or any higher duties on dairy produce or wheat than those conceded to the Dominions at Ottawa. Worse still, the Argentine agreement forbade any quantitative restriction upon the import of Argentine chilled beef, beyond a 10 per cent cut in the 1932 figures, unless Dominion supplies of chilled beef or frozen meat were restricted correspondingly. This meant, in effect, that the infant chilled beef industry in South Africa and Australia, just as science had made its development possible, was precluded from all hope of preferential encouragement. It also meant that the British farmer could not secure any adequate protection against his foreign competitors except at the price of vetoing Dominion development.

That such an agreement, flagrantly violating the spirit of the Ottawa agreements, inevitably calculated to create difficulties between British and Dominion agricultural interests, disastrous to British agriculture, and, incidentally, involving the unnecessary sacrifice of many millions of revenue, could have secured Cabinet sanction seems almost incredible. The explanation lies partly in the irrational anti-duty complex which at one time infected even Conservative Ministers, but even more in the strong probability that in our overworked departmental Cabinet system nobody ever read the Argentine Agreement with sufficient care to realize what is meant. Its meaning should certainly be clear enough to-day to the Chancellor of the Exchequer who, in order to find a temporary solution of the deadlock which it has created between ourselves, the Dominions, and the Argentine, will have had to provide, up to the

expiry of the Argentine Agreement, nearly £9,500,000 in subsidy for the British beef grower, without being allowed to levy even a portion of it from his foreign competitors. A similar subsidy to our milk farmers, in respect of butter and cheese, euphemistically described as a loan, may also remind him of one of the incidental consequences of the Danish Agreement. These unfortunate results are, however, only small things compared to the really serious inter-Imperial aspect of a situation in which the British Government, precluded by its own action from protecting itself against foreign competition, has tended to see its best hope of helping domestic agriculture in a policy of restricting Empire development, and to resent Dominion reluctance to acquiesce in such a conclusion. Happily, the Government has now realized that the common-sense policy for dealing with the problem is that of a subsidy derived from a preferential duty, and has come to an understanding with the Dominions on the basis of a permanent policy of tariff and preference against foreign meat. The situation will be met, pending the expiration of the Argentine Agreement, by the Exchequer subsidy to home-grown beef and by a standstill agreement with Australia and New Zealand as to their exports to this country of mutton and lamb.

It will, of course, be said that our investments in the Argentine and our trade with Denmark and Scandinavia generally, and especially in coal, are matters of importance. I would go further than that, and say that, for the political and economic reasons I have advanced elsewhere, it is well worth while making a special effort to link the Scandinavian countries and, perhaps, the Argentine as closely as possible with ourselves, even to the extent of giving them preference over other foreign countries—once we can shake ourselves free from the fetters of the Most Favoured Nation Clause. But that was no excuse for tying our hands as we have done, for upsetting our whole Imperial economic policy, or for denying ourselves revenues which both countries would have been only too ready to pay in order to retain some share of the British market. Our bargaining position was immensely strong. Both Denmark and the Argentine

depended absolutely upon us for their main industries. Neither of them was giving any corresponding support to our export trade.

In 1932 the Argentine sent us produce to the value of £50,900,000. In return she took from us £10,700,000. Making all allowance for the invisible export represented in our shipping and in the interest due on our investments, together perhaps £20,000,000 in all, there remained a large balance in favour of the Argentine which could have been spent in the purchase of British goods. It was, in fact, spent on the purchase of American goods, of which the Argentine imported £8,630,000 as against an export of only £3,200,000 to the United States, as well as of goods from other foreign countries. That was a situation calling for drastic revision. Instead of that we tied ourselves hand and foot to the maintenance of the present position, in order, firstly, to secure some general tariff concessions (available to all our competitors as well as to ourselves), and, secondly, some facilities for the payment of debts owing to us. These latter we were always in a position to enforce, in view of the balance of trade, without treating them as a concession to us by the Argentine. As for the trade figures, they show some improvement—Argentine imports from this country went up in 1934 to £14,700,000 as against exports to this country of £46,900,000. The Danish and other Scandinavian treaties have shown similar relatively satisfactory results. Our imports from Denmark, Norway, Sweden, and Finland rose slightly from £73,900,000 in 1932 to £74,600,000 in 1934, while our exports rose more substantially from £24,800,000 to £32,200,000. But in neither case can these increases be regarded as having to any really adequate extent redressed an unsatisfactory situation, or as having given assistance to our industries at all commensurate with the damage done to our revenue, to our agriculture, to our trade with the Empire, or, above all, to our Imperial relations and to our reputation for honouring our Ottawa undertakings in the spirit as well as in the letter.

Headed off from the most obvious practical solutions of the problem of agricultural protection, Major Elliot has with undefeated energy and optimism tried to achieve his purpose

by a variety of schemes, in connexion with milk and dairy produce, potatoes, bacon and meat, based on a combination of the organization of domestic marketing under the Agricultural Marketing Acts of 1931 and 1933, with quantitative restriction of imports. The main features of these schemes, particularly on the domestic marketing side, will probably prove of permanent value, once the initial difficulties are overcome. In some aspects they are more likely to serve as object lessons of the difficulty of applying the rigid methods of quantitative control to the elusive forces of economic life. One can only wish them all possible success. But that does not alter the fact that it is high time that we established our whole national and Imperial protective policy, especially on its agricultural side, on clearly thought out lines.

A policy for agriculture must take account not only of problems peculiar to agriculture as such, but also of those specially affecting the limits to the productive capacity of our own country in relation to its consumption and to the problem of inter-Imperial economic co-operation. The most important point about agricultural production as compared with manufacture or mining is its much greater dependence upon chance and its liability to violent price fluctuations. There is, first of all, the weather itself, both in one's own country and in the world at large, creating a wide margin of uncertainty in regard to domestic and world output, and an even wider margin as regards price prospects. Then, while manufacturing output can at any time be varied, reduced, or suspended, with at any rate a large proportion of saving in materials and labour, the farmer is committed for at least a year ahead, in the case of live stock and fruit for several years ahead, and cannot slow down, suspend production, or change his product. His only chance, indeed, as an individual, if prices fall, is to produce the most he can and get what it fetches, irrespective of the effect of his action and that of all his competitors upon the price level. Nor is he free to any great extent, except in the case of cereals, to put his production into stock while waiting for better prices. Last, but not least, he is the first to feel the impact of changes in the price level, which affect his products more

than any others, while at the same time his standing charges, whether in the form of rent, mortgage, tithe, or wages, are peculiarly slow in adjusting themselves.

The final test of our agricultural policy, as indeed of all our economic policy, must be efficiency of production. I do not, of course, mean efficiency in terms of price alone, without making allowance for wage standards and other local conditions, or for the numbers and quality of the most important product of any industry, namely the men and women whom it supports. But only real technical efficiency can afford a good living both to the producer himself in wages or profits, and to the rest of the community in fair prices. If we believe it to be vital to our national health, and to a reasonable internal balance of production and stability of employment, to enable agriculture to afford to those engaged in it wages and profits comparable to those enjoyed in manufacturing industry, then we must begin by securing for it that measure of certainty, that normal correspondence between effort and reward, which is an essential condition of all efficiency. No one can suggest that present conditions encourage the flow into agriculture of either capital or of first-class financial, scientific, or technical ability on a scale corresponding to its needs. Nor can agriculture secure these essentials without a greater measure of state assistance and direction than is required for manufacturing industry. Reasonable security of market and reasonable stability of price for his staple products, these are the indispensable incentives to real enterprise and efficiency on the farmer's part. A fixed tariff, such as is normally sufficient for manufacturing industry, and, indeed, for many agricultural products in which our home output can cover the bulk of the demand and at comparable prices, is not enough for some of the most important branches of agriculture, whose output can only meet part of our demand, and that only at a price much above the import price. In such cases a fixed duty would have to be excessive, from the consumer's point of view, before it could give any real security as to either market or price.

To a large extent the difficulty could be overcome by duties on a sliding scale, rising as prices fall and vice versa,



the fixing of which might be either automatic or, preferably, upon the recommendation of a special advisory committee in a position to take the whole agricultural position, as well as the needs of the consumers, into account. In some cases, however, the price disparity is such that this method by itself will not meet the situation. The most effective method there, both as regards stability of price and security of market up to a desired total output, is that embodied in the Wheat Act, viz. of a subsidy based on the difference between the average import price and a fixed average price for a fixed total home output. Coupled with a duty, whether fixed or sliding scale, such a system can be made both self-supporting and self-correcting. In so far as the duty is effective in raising the price, it reduces the amount of subsidy required; in so far as the foreign importer pays the duty and keeps down the price, he also provides funds for the subsidy. Incidentally, the method allows of giving an advantage to the home producer over the Empire producer at the expense of the foreigner, without necessarily involving inter-Empire duties or restrictions. The principle, so far as the subsidy side of it is concerned, has worked admirably in the case of wheat. We have perforce been driven to applying it to the case of meat even at the cost of a direct subvention from the taxpayer. Nor should there be any insuperable difficulty in applying it to dairy produce, once our freedom to impose the requisite duties is restored to us.

There remains the alternative method of quantitative restriction or "quota." This method has been freely applied in other countries as an addition to tariffs, partly for currency purposes, partly to circumvent the Most Favoured Nation Clause in order to reduce competition from a particular quarter or to afford scope for special bargaining. We have made use of it both for this latter purpose in recent commercial agreements and also as a substitute for tariffs which we have been afraid to impose or have precluded ourselves from imposing. That quantitative restriction can both give security of market and raise prices is undoubted, and there may be cases where it may be usefully applied in conjunction with duties. But as a method by itself it is extremely clumsy

and uncertain. To estimate correctly what degree of restriction will have any particular effect on prices is almost impossible. A shade too little restriction and there may be no perceptible effect; a shade too much and prices may soar far beyond the intended figure. Again the quantitative basis of the whole calculation may be upset by the effect of a change in prices upon consumption, especially if the article is one for which there are substitutes. In the case of beef the limited restriction imposed has proved entirely ineffective. In the case of mutton and lamb it would seem to have produced more or less the desired result. In the case of bacon there have been very wide fluctuations both in deliveries, in prices, and in total consumption.

There are other objections. Duties, while they direct and influence the course of trade, do not actually do away with freedom of trade. An individual who for some special purpose prefers the foreign article can always buy it by paying the duty. Subject to the preference which the duty gives to the home producer there is every opportunity and inducement for competition both in price and in quality. The quota method largely destroys this free play and adjustment of competitive economic forces. If enforced by the government of the importing country it inevitably leads to some system of licensing of importers, with all the vested interests and possibilities of favouritism and even corruption involved. If its enforcement can be transferred to the exporting government the difficulties are the same, though it is the foreign producers who may feel them most. If left to voluntary agreements with a handful of big firms it tends dangerously to create monopolies and stifle competition. It is calculated, in fact, to create the maximum both of domestic and international friction.

Last, but not least, the quota method, by itself, does not secure the incidental revenue which is so useful a feature of the tariff system. In so far as it raises prices it taxes the consumer for the benefit of the foreign producer as well as of the home producer, whereas the incidence of a tariff, under present-day competitive conditions, is largely if not entirely upon the foreigner, who thus provides a revenue which can be used in reduction of other taxation or as a

subsidy to cheaper home production. Apart from all other inconveniences which we have suffered from the irrational anti-tariff complex in government circles, we have gratuitously sacrificed tens of millions of sorely needed revenue and gratuitously presented millions to foreign producers and middlemen in the last three years, and are bound to do so for eighteen months longer.

This is not to say that there may not be cases where the method of quantitative limitation may usefully be applied, especially in conjunction with duties. My objection is to the substitution, for purely political motives, and irrational ones at that, of a clumsier and less effective method of protection for the more flexible and effective method. The objection goes even deeper. The main object of this work has been to emphasize the organic, biological, evolutionary character of national life, and to point out the danger of all abstract and mechanical conceptions and schemes, whether individualist or Socialist. Any policy which is to succeed, in the economic as in every other field, must take account of the fact that it is dealing with living, mobile forces and activities. It should aim at so guiding and directing them that they may harmonize with each other and make the greatest possible contribution to the national welfare. But the moment it goes beyond that aim of general guidance, and attempts to fit the living stuff into any rigid framework, or to control its activities in detail, it breaks down or else ends in paralysing the individual energies from which the national life ultimately draws its own vitality. Our national economic life calls in every direction for planning and co-ordination. But all planning which is based on the idea that we are dealing with bricks and mortar, with material which can be measured in purely quantitative terms, and which will stay where it is put, is doomed to failure.

It is from this point of view that we are justified in looking with suspicion, not only upon schemes aiming at fixing rigidly the quantities of our imports, but also at schemes for internal production based on any rigid and mechanical plan for fixing quantities or prices. There is much to be said for the better organizing of our agricultural

marketing at home. Nor is such organization possible, in many cases, without some power on the part of the great majority of producers to prevent a small recalcitrant minority from wrecking its operation. The provisions of the Marketing Acts of 1931 and 1933, based on the initiative of the producers themselves, on full inquiry, and on the subsequent submission of a definite scheme to a referendum of producers, and allowing at any time for a referendum terminating the scheme, would seem to be substantially fair and workable in this respect. But to think that the main object and starting-point of such organization should be the fixing of prices and of total output is to invert the whole order of importance. The main object should be the efficiency of marketing itself, the high quality and even standard of the product, the fullness and up-to-dateness of the information as to prices and market prospects available to the individual producer. Some security for a reasonable price level against unfair competition or the swamping of the market is, no doubt, an indispensable condition. But it should never prevent individual efficiency, whether in production or in marketing, securing its reward in a better price or in larger sales.

Subject to these criticisms, the various schemes for which Major Elliot has been responsible have yet, in large measure, fulfilled their primary purpose. The Milk Board, with an annual turnover of some £63,000,000, has checked a disastrous fall in prices and secured an average price to the farmer some 70 per cent above the pre-War price. It has, with Government co-operation on a pound for pound basis, been enabled to supply some 3,000,000 school children with a third of a pint of milk daily at the trifling charge of  $\frac{1}{2}$ d. It has also by a special premium scheme encouraged the cleansing of our herds from disease and the efficiency and cleanliness of milk production generally. The Bacon Scheme has served to illustrate the difficulties both of quota regulation of imports and of economic self-government by farmers, as well as the objection to a purely producers' organization. For all that it has enabled the British bacon output to rise from 1,750,000 cwt. in 1930 to an estimated output of 2,842,000 cwt. in the current year, while prices, though subject to considerable oscillation, have been kept

both above the abnormally low figures of 1932 and substantially below those of 1929-30.

#### IV. EMPIRE CO-ORDINATION AND PREFERENCE

The considerations which apply to the planning and co-ordination of agriculture at home apply no less in the Imperial field. Only disaster can result from a policy of trying to force up prices by restriction, domestic or inter-Imperial. The idea of meeting a depression due to monetary causes by creating artificial dearth in particular commodities through the restriction of their output is fundamentally unsound. At best it only shifts the burden of deflation by reducing the power of the community to purchase other commodities. Limitation of foreign competition in order to encourage home and Empire production is an entirely different policy. Increased production and consumption at a price level in keeping with our overhead charges and customary working costs, if carried out all round, is a natural concomitant of and contributor to the restoration of the general price level within the Empire by monetary policy. The first and indispensable condition of a sound agricultural policy for the Empire is that it should be a policy of development and abundance and not a policy of restriction.

To secure that development the limitation of foreign competition must be effective. Unless the volume of production transferred is substantial there is no margin for real expansion both at home and in the Empire; no field for more men on the land at home, for more settlers on the unpeopled acres of the Dominions; no expanding sheltered markets for British and Dominion industries. If we wish to restore our own agriculture and also enjoy the advantages of preference in an expanding Empire market, we must resolutely cut down our imports of competing foreign agricultural produce. The ill-starred Runciman treaties must go at the earliest possible moment. There is no reason why we should not still take a certain amount of our requirements from foreign countries, especially from countries like Denmark or the Argentine. But it should be on much

better terms for our export trade than at present, and on a definitely smaller scale. We must never forget that, in the ultimate analysis, a home or Empire producer is not only a better customer than a foreigner, but is a fellow-citizen, in other words *an end in himself* and not merely a means, and that the aspect of our oversea investment that really matters is not the dividends it brings to investors, but the community to whose development it contributes. We cannot both eat our cake and have it, and if a policy of Empire development should involve some incidental sacrifice of exports to foreign countries or a diminution of return on some foreign investments, we must face the smaller loss for the sake of the greater gain.

Given the effective limitation of foreign competition there still remains the question of allocation and adjustment of production within the Empire. There are social as well as economic reasons which justify a certain internal balance of production in each part of the Empire. The Dominions no more dispute our right to maintain a reasonable level of agricultural production than we dispute their right to protect their secondary industries. On the other hand it is obvious that while we possess a great surplus of cheap and efficient manufacturing power over and above the requirements of our home market, and the Dominions a great surplus of cheap primary production, it would be folly for each of us individually to pursue a narrow policy of self-sufficiency. At Ottawa an attempt was made to arrive at some sort of a general principle in regard to Dominion industrial protection. The Canadian, Australian, and New Zealand agreements each contain a clause which, difficult no doubt in its detailed application, is yet plain enough in its general intention, namely that Dominion protection should not be arbitrary and unlimited, but definitely related to differences in costs of production and justified by a reasonable prospect of healthy development. Some corresponding general principle should equally govern the application of protective measures to British agriculture as against the Dominions. Nor should we forget, in attempting to strike a fair balance, that one of the most vital of all our industries, shipping, depends largely to-day, and will depend more and

more in the future, upon inter-Empire trade, or that as a creditor nation we must be prepared to receive payment of our interest in the shape of Dominion produce.

In attempting to arrive at an adjustment between the interests of home and Empire agriculture there are certain obvious considerations which we must keep in mind. One is that our climate and soil, while ideally suited to every form of the live stock industry and to the growing of most vegetables and soft fruits, are not particularly favourable to cereal production. There is, therefore, no case for attempting to bring about a great extension of cereal production in this country. In so far as a certain minimum of wheat growing is desirable in the interests of particular areas, and as part of our system of crop rotation, our own situation is well provided for by the Wheat Act. But that is all the more reason why the rest of our market should be secured for the Dominions by really effective duties against foreign wheat. Similarly as regards barley and oats, so long as the duty on the foreign product is sufficient, there is no strong special case for protecting our own product against Empire competition. The case of sugar beet is also analogous to that of wheat, in so far as its protection is justified not so much on general economic grounds as on the value of the crop in the general economics of the farm. Here, too, considerations both of Empire trade and of cost make it undesirable to extend the assistance given to home production beyond a definite limit, which has probably already been reached.

On the other hand there is a large range of production, comprising fresh milk and cream, most vegetables and soft fruits, where geographical conditions preclude serious Empire competition, and where the home producer, reasonably sheltered from Continental competition, is capable of meeting the whole of our demand. These are all products giving a relatively high proportion of employment and making an effective use of our limited acreage. Their abundance and their quality are of no less importance from the point of view of the national health. Their consumption, indeed, should be much larger than it is, especially in the case of fresh milk, where we consume an average of

a third of a pint a day per head as against a pint in the United States, a pint and a half in Denmark and nearly two pints in Switzerland. It is upon this department of our agricultural life that we should specially concentrate, both on domestic and on Imperial grounds.

There remains as the really debatable ground between home and Dominion agriculture the meat industry in all its forms, including pig products, the poultry and egg industry, and manufactured dairy products, namely butter, cheese and tinned or powdered milk. In none of these lines, except perhaps poultry and eggs, could we supply the whole home demand at a reasonable price. There is ample room, once foreign competition is effectively limited, for both home and Dominion agriculture to expand in respect of meat, and it may be that the definite prejudice in favour of the fresh home product would, with better organization, be sufficient to enable it to secure an adequate share of the market in free competition with the Dominion product. If, however, some preference for the home product is required, then the best method by which it can be given is that of a subsidy towards the maintenance of a definite total output, provided by a duty or levy on the foreign product, supplemented, if necessary, by a much lower duty on the Empire product.

When it comes to butter we have got to face the fact that British agriculture is not capable, under present conditions, of competing either in price or in quality with the product of the highly organized dairy industry and large-scale butter factories of New Zealand and Australia. Taking into consideration the importance of cheap and abundant butter as an element in the national dietary, the scope for increased consumption of fluid milk, and the extent to which the butter export has become a main stand-by of New Zealand and Australian agriculture, it would seem to be the wisest policy to leave that field to the Dominions. The same applies to the cheaper types of cheese, and the best prospects of the home cheese industry would seem to lie in supplying a higher quality of cheese for those who can afford it. In tinned and powdered milk, on the other hand, there is no reason why the British manufacturer



should not hold most of the market even under free competition with the Dominions.

From what has just been said it is clear that there should be no insuperable difficulty in arriving at an agreed Empire policy for agriculture. The interests of home and dominion agriculture are essentially complementary and not conflicting. In the last resort the prosperity of both is bound up with an expansion of their market based on efficient production, a rising standard of consumption, and the limitation of foreign competition, and cannot, therefore, be regarded apart from the prosperity of other Empire industries or from the general policy of Empire economic co-operation. Now that Empire statesmen have been gathered together in conference, and have been able to face the situation anew, it is to be hoped that the right atmosphere has been restored, and that the Dominions have been made to realize that, in spite of temporary aberrations due to the peculiar circumstances of our internal political situation, we are resolved, as soon as our hands are free again, to make good the omissions of Ottawa and go forward with a really effective agricultural policy on Imperial lines.

Meanwhile the criticisms which have been directed against certain features of our handling of the Imperial economic problem, both at Ottawa and since, and which might also be directed against certain features of Dominion policy, more particularly in the interpretation of the "reasonable competition" clauses of the Ottawa agreements, should not obscure the very real and substantial advance made at Ottawa, or the no less substantial results that have already flowed from the agreements, even during the short time for which they have been in operation. It is necessary to remember that while other Empire countries began to feel the advantage of the measure of preference accorded to them as from March 1st, 1932, under the Import Duties Act, the changes of Empire duties in our favour, over and above existing preferences of long standing, did not take effect until the end of the year, or in some cases well on in 1933. The effect of the Ottawa agreements in helping Empire exports to this country thus showed itself much

earlier than their effect in helping British exports to the Empire. In the latter case the real upward movement did not begin to show itself until the autumn of 1933, since when the advance has been much more clearly marked.

The general trend of the course of inter-Empire trade since Ottawa is shown by the following table:

		1931. Per cent	1934. Per cent	First Six Months of 1935. Per cent
Imports from:				
British Countries	..	28·7	37·0	40·0
Foreign Countries	..	71·3	63·0	60·0
Exports to:				
British Countries	..	43·7	46·9	46·6
Foreign Countries	..	56·3	53·1	53·4

In terms of actual values our imports from the countries with which we made agreements at Ottawa increased between 1931 and 1934 by £29,000,000, while our exports to the Ottawa countries increased by £25,000,000. In 1934 our exports of manufactures were: To Empire countries, £156,654,000; to foreign countries £148,283,000. For the first six months of 1935 the increase in our total exports to Empire countries was £10,408,000, or 12·2 per cent, over the corresponding period in 1934, while our export to foreign countries only increased by £6,353,000, or 6 per cent. Our exports of iron and steel to the six countries concerned in the Ottawa agreements increased from 603,000 tons in 1932 to 881,000 tons in 1934, an increase of 46 per cent. The increase for the same period to all destinations, including the above, was only 19 per cent. Between 1933 and 1934 our exports of cotton piece goods to the Ottawa Dominions increased from 828,000,000 square yards to 945,000,000 square yards, an increase of 117,000,000 square yards, while our exports to foreign countries decreased by 113,000,000 square yards.

In the case of India, in spite of a heavy fall in total imports, the United Kingdom share rose from 37 to over

41 per cent; the actual increase between 1932 and 1934 being from £34,000,000 to £36,000,000. On the other hand United Kingdom imports from India rose over the same period from £32,400,000 to £42,100,000. Canada's exports to this country rose (for the year ending October 31st) from \$179,000,000 in 1932, to \$271,000,000 in 1934, while her imports from this country rose from \$93,500,000 to \$113,500,000. Australia's exports to the United Kingdom rose from £38,000,000 (valued in British currency) in 1931-32 to £41,500,000 in 1933-34 and her imports from the United Kingdom from £17,500,000 in 1931-32 to £25,500,000 in 1933-34. New Zealand's exports to the United Kingdom rose from £32,500,000 (British currency) in 1932 to £38,500,000 in 1934, while her imports from the United Kingdom rose from £17,000,000 to £19,500,000. Exports to the United Kingdom from the Union of South Africa (excluding gold and diamonds) were £8,000,000 in 1932, and approximately the same in 1934; on the other hand, South African imports from the United Kingdom rose from £15,000,000 in 1932 to over £30,500,000 in 1934. The large excess of exports to the United Kingdom in the case of most of the Dominions, more particularly in the case of Australia and New Zealand, is, of course, due to interest and shipping charges. Thus New Zealand owes this country about £8,000,000 a year on public debt alone plus another £8,000,000 paid to British shipowners. In the case of South Africa this is more than offset by an annual gold export of £35-45,000,000, largely of United Kingdom destination.

The order of importance of our various oversea markets in 1934 is very clearly shown by the table on page 365. The consumption of British exports per head of population is, of course, even more marked in the case of the Dominions, New Zealand being at the head of the list with a *per caput* purchase from us of £7 8s. for 1934. A New Zealander is worth to us as a customer as much as 18 Frenchmen, 35 Germans, 50 Americans, or 444 Russians.

To give a complete picture, however, it would be necessary to present corresponding tables and details for the inter-

Empire trade of each Empire country. It must never be forgotten that the policy of Imperial economic co-operation is not confined to bilateral co-operation between the United Kingdom and other Empire countries. By no means the least important feature of Ottawa was the agreements concluded as between the different Dominions and Colonies. In the case of Canada and Australia, the increase of their trade, both import and export, with other

Order	Country	Value of Exports (£ Million)	Percentage of Total Exports
1	Colonies and Protectorates	40·99	10·35
2	India .. ..	36·68	9·26
3	South Africa .. ..	30·25	7·64
4	Australia .. ..	26·25	6·63
5	Canada .. ..	19·72	4·98
6	Irish Free State .. ..	19·53	4·93
7	U.S.A. .. ..	17·57	4·44
8	France .. ..	16·75	4·23
9	Argentina .. ..	14·66	3·70
10	Germany .. ..	14·01	3·54
11	Denmark .. ..	13·35	3·37
12	Holland .. ..	12·09	3·05
13	New Zealand .. ..	11·43	2·88

parts of the Empire besides the United Kingdom has been particularly striking. Canada's total trade (imports and exports) rose from \$955,000,000 in 1932 to \$1,173,000,000 in 1934. But her trade with the United Kingdom rose from \$273,000,000 in 1932 to \$384,000,000 in 1934, and her trade with all Empire countries from \$346,000,000 in 1932 to \$493,000,000 in 1934. Australia's total trade rose from £121,000,000 (valued in British currency) in 1931-32 to £151,000,000 in 1933-34; her trade with the United Kingdom from £55,000,000 to £67,000,000, and her trade with all Empire countries from £70,000,000 to £86,000,000. Similar figures could be adduced from the the statistics of every part of the Empire, except the Irish Free State, showing the increase of general inter-Empire

trade as apart from United Kingdom trade. All these figures, of course, derive an added significance from the fact that they coincide with the continuance of world depression and with the steadily shrinking volume of international trade.

## V. TRADE VERSUS PRODUCTION

In the light of the measures so far taken for the protection of industry and agriculture in the home market, and of the results already apparent from the first tentative steps taken at Ottawa in the direction of an Imperial economic policy, as well as from certain recent trade agreements with foreign countries, we can form a better judgment as to what should be the general character of our external trade policy. But it is essential, before we frame our policy, that we should be clear in our minds as to what is its ultimate object. That object, I submit, is not trade as such, but the sum total of national well-being as measured in terms of production and consumption, of employment and the standard of living. In other words we must think in national and not in individual terms. For the individual producer in an industrially and commercially organized society the end and object of his activities is trade; to sell his particular product in order to secure money with which to meet all his varied wants. From the national point of view trade is only of importance in so far as it may stimulate production. The end in itself is production, or rather the population which, as producer-consumers, is created and sustained by that production. The point is one especially important to keep in mind when we turn from the consideration of domestic to external economic policy, for in the latter field it is an essential preliminary to consistent and effective action that we should clear our minds of the confused ideas based on individualist terminology which have dominated and still in large measure dominate our outlook.

Typical of the current confusion is the habit of thinking of our "trade," i.e. our external trade, and in particular our export trade, as the test of our prosperity, regardless of its relation to domestic production, or of the actual composition

of either our exports or our imports. It is this attitude of mind which led us for so long to regard with complacency the steady increase of agricultural imports which were destroying our agricultural production, and to ignore the fact that against the increasing exports of our manufactures should have been set the far greater loss of the market for our manufacturers represented in our displaced agricultural population, as well as the loss of that population itself. It is this same attitude which even now thinks that a trade treaty which secures an increase of our exports, even at the price of a corresponding increase in competitive imports, must necessarily be a good thing because it "increases trade," or because "we live by our exports."<sup>1</sup> From the national point of view there is no advantage or disadvantage in foreign trade as such, whether its volume be great or small. The advantage lies in the contribution which it may make to our productive activity and to our standard of living. From the former point of view it is the productive employment represented in our exports, and still more the productive employment which our imports are capable of giving, that constitutes their value.

A simple illustration will suffice to make the point clear. Let us suppose that we import £1,000,000 worth of raw wool and pay for it with an export of £1,000,000 of fine woollen cloth. What is the national advantage in the transaction? It lies in the productive process by which the raw wool (an article of which we cannot produce a sufficiency at home) is converted by British skill into, say, £4,000,000 of cloth. Out of this £1,000,000, representing a quarter of our original import of wool, is surrendered as an export to pay for the wool, leaving a net national gain of £3,000,000 representing, from one point of view, the employment created, from another point of view, the warmth and comfort enjoyed by our people. Let us next suppose that the £1,000,000 of raw wool is paid for, not by an export of cloth, but by an export of £1,000,000 of yarn. Assuming, for the purpose of our argument, that it takes £500,000 of raw wool to make £1,000,000 of yarn, we now surrender

<sup>1</sup> "There are two tests to apply to prosperity in this country, the exports of coal and of cotton goods."—The Rt. Hon. W. Runciman.

half our total import of wool, and are left with only £500,000 to work up for ourselves into £2,000,000 of cloth. In other words the national gain has been reduced from £3,000,000 to £2,000,000.

As a third supposition let us assume that we still export £1,000,000 of cloth and with it buy, not raw wool, but £1,000,000 worth of foreign cloth. In that case there is no real addition to our productive energies, but only such small marginal advantage as may be represented in the fact that the exchange of goods in a similar stage of manufacture may happen to suit the taste of individual customers. Lastly let us assume that we buy £1,000,000 of foreign cloth with a re-export of £1,000,000 of Australian wool. We now sacrifice, for £1,000,000 worth of cloth, the opportunity of exercising our skill in converting the raw wool, which we had already bought, into £4,000,000 worth of cloth. In other words, from the point of view of potential national employment and national consumption we are £3,000,000 to the bad.

Here then are four instances where the same volume of "trade," both import and export, representing in each case an element of profit to the individual trader, stands for a quite different result, from the national point of view, ranging from £3,000,000 gain to £3,000,000 loss, according to the character of the transaction. The argument is, of course, based entirely on our own particular circumstances as an industrialized nation with a highly developed textile industry, and dependent on imports for its raw materials. It is also based on the assumption that the cost and quality of our finished product is at any rate comparable to that of other producers and that, consequently, there is no loss to our customers in buying that product at home—after making allowances for the indirect advantages of increased production in strengthening the home market, augmenting the revenue, and reducing the social cost of unemployment—sufficient to affect the broad economic conclusion as to the balance of national advantage. Entirely different considerations apply to a country with a less developed industry and a large actual or potential surplus of raw material production. In such a case the national advantage may lie

in an exclusive concentration upon development by primary production, at any rate for a time, or in an exchange of its surplus raw materials for such particular manufactures as it is not yet in a position to produce efficiently.

Anyhow, so far as we are concerned, and first considering the interests of the United Kingdom by itself, we must keep in mind that the only external trade which is of vital importance to us is that which secures for us those raw materials and foodstuffs which we cannot produce in this country, either at all or in sufficient quantity, by the export of those things of which we can provide a surplus. These are, in the first instance, our finished manufactures, or such services as shipping or finance. There are also certain raw materials, of which we have a natural surplus, such as coal and china clay. In these cases it is, however, always necessary to keep in mind that their export is only of national advantage provided that they cannot be worked up in this country, and that they are not afterwards worked up abroad so as to compete against our finished products in any market to which these have access.

That is the essential trade upon which our policy should concentrate. Over and above that there will always be a certain margin of trade, both import and export, which, while not making the same direct contribution to our national production, is still desirable in the interests of industrial efficiency and of the maintenance of our standard of living. There will always be specialities in the field both of manufactures and of agricultural produce which it would be a mistake to exclude merely because they belong to classes of products which we can, normally, make ourselves. More generally a certain import in all classes of manufactures will always be required to maintain competition both in price and quality, and our tariff should deliberately allow for that. Again there will be special cases where we can secure a particular stage in manufacture, without being able to secure the rest, e.g. in the export of yarns to a country which keeps out our finished cloth. The ideal of only exporting finished manufactures ready for consumption may not always be attainable.

These are all considerations which no sane protectionist



policy can ignore. What is essential is that we should not forget—as Free Traders habitually forget—that trade of this character is secondary in importance, and that we should not allow it to expand to the point at which we encourage an importation which seriously displaces either home production or the more important import of raw materials and other non-competitive products. No expansion of our export trade is of any advantage to us if it can only be secured on those terms. Nor, indeed, is there any urgent reason for desiring to push our exports beyond what is required for the purchase of necessary or desirable foodstuffs and raw materials plus a margin for specialities and for a due allowance of competitive imports as well as for such amenities as foreign travel. An export is, in itself, from the national point of view, a loss, only worth incurring for the sake of some substantial national advantage in the *character* of the goods bought in return. Production, and not export as such, must in future definitely govern our policy, both in tariffs and in treaty negotiations.

I have spoken so far from the purely insular point of view. When it comes to considering the problem from the angle of Empire co-operation, then obviously we have to take into account the effect of our imports, not only upon domestic, but also upon Empire production. As between Empire countries the area of what I have called the trade of marginal advantage can safely be more widely extended, and we can afford, in view of the greater community of interest, to allow of more Empire competition, not only with our agriculture but also with our industries, than of foreign competition. As the production remains in the Empire in any case, it still remains a factor in the common strength and prosperity. What it gives less of employment here, it may compensate in more employment in some other industry which serves the Empire market or in more opening for migration. That is the underlying justification of basing inter-Imperial trade, not on a local protectionism pushed to its extreme conclusions, but on some principle of adjusted or compensated competition such as that which was laid down in the “reasonable competition” clauses of the Ottawa agreements with Canada, Australia, and New Zealand.

On the other hand foreign imports which, from the purely insular point of view, might be regarded as complementary and so desirable, become undesirable from the Imperial point of view if they tend to displace similar imports from the Empire and reduce the opportunities for Empire development. Their importation should therefore only be encouraged as marginal, i.e. to the extent to which it may be required to stimulate competition and maintain standards of efficiency. As there is practically no requirement of ours that cannot in the long run be supplied by the Empire this means that eventually our trade with foreign countries—and correspondingly the foreign trade of other parts of the Empire—will tend to diminish, if not actually yet relatively, to the proportions of a marginal trade. This process of increasing Imperial self-containment will be accentuated and, indeed, forced upon us by the formation of other nation groups based on mutual preference, and by the fact that our high standard of wages and the improved technical efficiency of countries like Japan will prevent our competing, except in a few special lines of manufacture, in markets in which we do not enjoy a definite preference.

## VI. THE MOST FAVOURED NATION CLAUSE

In so far, indeed, as our foreign trade is still of great, though necessarily diminishing, importance to us, we can only maintain it, outside a limited range of specialities, by arrangements securing for our exports a direct preference over those of our competitors. In other words we must get rid, and as quickly as possible, of the Most Favoured Nation system. The objections to that system, on grounds of general international and Imperial policy, have already been touched on elsewhere (see pp. 113-114 and 280-281). On general economic grounds, too, the system, so far from encouraging the spread of freer trade, has, on the whole, had the opposite effect. For it has, in treaty negotiations, made every concession more onerous to the giver, and less worth receiving, because it has to be shared with all the world. It has to some extent been possible to get round this by refinements of classification which, in fact, have

tended to limit the concession to a particular country—the most typical instance is that of the German concession to cattle “habitually living at an altitude of over 1,000 metres,” which admitted Swiss, but effectually disqualified Danish cows! But on the whole the tendency has been to encourage countries, not to secure concession by concession, but to sit back and hope that, owing to the operation of the Most Favoured Nation Clause, they might get concessions for nothing as the result of somebody else’s negotiation.

From our point of view, however, the system was undoubtedly of value at one time, both because, as Free Traders, we had no power of bargaining of our own, and were glad to get whatever tariff concessions others might secure, and because we were still well satisfied if we were given an equal chance against all competitors. To-day we are in a position to demand high terms for admission to what is still, even after allowing for the development of domestic protection and Imperial Preference, the best market in the world. On the other hand the only terms in other markets that are now of real value to us, in most lines of manufacture, are special terms.

We and other nations, in fact, have recognized this in most recent commercial treaties, the main value of which lies in a variety of specific undertakings with regard to quotas, percentages of coal bought, etc. All of these are directly contrary to the spirit, if not to the letter, of the Most Favoured Nation Clause. It would immensely simplify and stimulate the spread of commercial agreements, and the extension of true freedom of trade, if these cumbrous devices could be dispensed with, and if nations were in a position honestly and simply to make specific tariff concessions to each other. The Most Favoured Nation Clause is to-day an anachronism which, in the supposed interest of freer world trade, does in fact stand in the way of progress towards freer trade between nations which have economic, geographical, or political reasons for trading with each other, but are precluded from doing so if it means throwing open their doors to the flood of world competition.

From the Empire point of view it is far easier for us to reconcile the needs of this country, and indeed of other

countries in the Empire as well, for a certain amount of extra-Empire trade with the development of inter-Empire trade, if the fostering of that extra-Empire trade can be specially concentrated on particular markets and limited to particular sources of supply. There is much to be said for a system of reciprocal trade or mutual preference with foreign countries which, for one reason or another, are of special interest to any part of the Empire, provided always the preference is not at the expense of the rest of the Empire, but at the expense of other foreign countries. But so long as the Most Favoured Nation Clause stands in our commercial treaties no such development is possible, except to a certain extent by roundabout and clumsy means.

It is significant that no attempt was made at Ottawa to apply the Most Favoured Nation principle as between different parts of the Empire. Each of the Ottawa Agreements stands by itself, and even if, for convenience, the United Kingdom has given substantially identical preferences on most products to all Empire countries, there is no obligation to do so, and our example has not been followed by the Dominions. We do, in fact, in respect of sugar give a larger preference to the Colonies than to the Dominions and we do not at present extend Imperial Preference to the Irish Free State. There is no insuperable reason, if any particular Dominion wished to make a much bolder advance in the direction of freer mutual trade with this country, why we should not give it special preferences in return. No one here would object to Australia and New Zealand conceding special extra preferences to each other, and it is only a survival of the old notion of a "Mother Country" treating all its "children" alike that is responsible for the idea that we must in all circumstances give the same fiscal treatment to all Empire countries, and hold back all advance in economic co-operation to suit the pace of the slowest. The Ottawa system is based on two principles. The first is that there is no obligation to extend preferences given to one Dominion to another, but also no veto on such extension, or even on the granting of a larger preference in return for larger concessions. The second is that the preferences so given may not be extended to foreign countries.

Within these two principles there is the widest possible freedom for every kind of arrangement.

Some such system might with advantage be adopted by the European countries, or by any other group of states that wishes to establish a system of all-round mutual co-operation, once they could get free of the Most Favoured Nation Clause. The fact that the interests of Europe coincide so largely with our own on this issue ought greatly to simplify the task of freeing ourselves from the Clause. It should enable us to avoid the necessity of denouncing over forty commercial treaties by some general understanding, among all the states anxious for the change, to regard the Clause as no longer operative as between themselves. Or the Clause might by agreement be reinterpreted as not preventing the setting up of groups of nations based on mutual preference, just as it has, in the past, been held not to prevent the creation of an actual customs union. We should then only have to denounce our commercial treaties with such countries—and there would in practice be very few which had no interest in the establishment of a preferential group or, at least, of special trading relations with particular countries—as refused to accept the general reinterpretation. Negotiations for such a general revision should, as has been pointed out earlier (see pp. 243–247), also cover all the restrictions imposed upon our liberty to develop an Empire economic policy in our African possessions, whether colonies, protectorates, or mandated territories.

So far as Europe is concerned there is no time to lose. It is no exaggeration to say that the Most Favoured Nation Clause to-day is, more than any other factor, holding back the prospects of peace and prosperity in that quarter. Only something in the nature of a far-reaching system of mutual preference can create peace and stability over the vast area of the Danubian and Balkan states. Only something of the same sort can save the countries of the European Gold Block, i.e. France, Holland, Italy, and Switzerland, together with their colonies, from being forced off the gold standard or being ruined by it. But if these two groups could once coalesce into a single preferential system, the European problem is more than half way towards its solution. For

Germany would irresistibly be drawn into the orbit of the new system, which in its turn would gain by the inclusion of so large a market for raw materials and tropical and sub-tropical foodstuffs. So far as we are concerned we shall not be really free to revise our treaty policy in certain most important aspects until the expiration of the Runciman treaties at the end of 1936. But even so it will take all of our time between now and then to get the new world economic order accepted in principle, and we cannot afford to delay giving a definite lead.

## VII. SHIPPING

Intimately bound up with any consideration of our general economic policy is the question of our shipping policy. The British Merchant Service is one of our greatest national industries. It normally employs over 150,000 men, or more than 250,000 if we include shipbuilding and other cognate industries which are essentially part of it. It is our greatest export industry, the greatest balancing factor in our whole scheme of external trade. The "invisible export" represented by British shipping amounted to nearly £100,000,000 even before the War, stood at £340,000,000 in 1920 and £130,000,000 in 1929. But British shipping is much more than that. It is the indispensable foundation of our whole system of inter-Imperial transport and communication. Last, but not least, it is a vital element in our defence. The Merchant Service and the Royal Navy have been twin sisters in a long partnership. Throughout our history they have been complementary and inseparable elements in British Sea Power. Never was this more evident than in the Great War when the Merchant Navy had to fulfil the threefold task of directly assisting the combatant work of the Navy, of keeping this country supplied with food and raw materials, and of transporting the armies of the Empire from and to all the ends of the earth and sustaining them in the field. Shipping is, indeed, the master key of our whole economic and political system.

That great British industry is faced with a grave immediate crisis. More than 50,000 of its men, a third of the

whole Mercantile Marine, are out of work. More than a third of the men in our shipyards are standing idle.<sup>1</sup> Nearly a million and a half tons of shipping is still laid up in all our ports and estuaries. Our national annual revenue from shipping fell in the period 1932-34 to £68,000,000. For the severity of that immediate crisis the cause is to be found in the tremendous contraction of international trade resulting from the Great Depression and from the measures taken by all the world to meet it, coming on top of a period of immense expansion in world shipping stimulated by lavish subsidies. To meet it some immediate short-term policy is essential. The Government has provided a "defensive subsidy" up to a total cost of £2,000,000 for one year only for tramp shipping. This has given a useful fillip at a moment when the world shipping situation generally shows some slight signs of improvement. The Government offer to give financial assistance, up to a total of £10,000,000, to the process of replacing out-of-date cargo tonnage by more modern vessels does not seem to have met with any great response. In any case it is open to doubt whether, even as emergency measures, the assistance offered is sufficient. Nor does the narrow Treasury attitude shown in insisting upon a merger between the Cunard and White Star lines before it would give any help towards the completion of the *Queen Mary*, and its recent veto on the transfer of the Red Star liners to the British flag, indicate any live consciousness of the serious plight of our most vital industry.

Far graver, indeed, than the immediate crisis in British shipping is the general position as it has developed since the War, and as it is destined to develop in the future, unless we are prepared for a complete recasting of our policy. The process of displacing British shipping from its once proud pre-eminence, and eventually pushing it off the high seas, has not only begun, but has already gone far, and is bound to continue until that shipping has a national,

<sup>1</sup> The figures for 1934, however, show a satisfactory increase over 1933 in tonnage launched in British yards, from 131,000 tons to 460,000 tons, or very nearly half the total world tonnage launched in the year, as against less than 27 per cent in 1933. British shipowners are at any rate keeping their ships up to date. Even this, however, meant that, after the recent scrapping of over 1,000,000 tons of shipbuilding capacity, only 25 per cent of the total berths were occupied at the end of the year.

or rather Imperial, policy behind it. It has been due, so far at least, less to any loss of competitive efficiency on our part than to the sheer determination of other great peoples, by hook or by crook, to build up their own mercantile marine as an essential element in an expanding economic life. They have done it, in part, by the reservation of their coastal shipping. The United States, above all, have included under this head, not only the coastal shipping of the United States proper, but the shipping to such distant dependencies as Hawaii and even the Philippines. They have done it even more by subsidies on a gigantic scale. Sir Alan Anderson has stated that the United States have spent over £600,000,000 since the War on the expansion of their Mercantile Marine. Even at the present time they are spending some £17,000,000 a year on shipping subsidies. For shipping alone, not counting shipbuilding or the help given by depreciated exchanges, the current subsidies paid by foreign countries amount to some £30,000,000 a year. In addition to these direct methods almost every country has striven in one way or another, by quota regulations, by conditions in economic bargains, by special through rail and steamer rates, to foster its own shipping. The only competitor of any importance who has not relied, to a greater or less extent, on these methods has been Norway, and even Norway has of late enjoyed the advantage of a depreciated exchange.

There could be only one result of such a contest. At the beginning of the century our shipping was considerably larger than that of all the rest of the world put together. Even as late as 1914 the shipping of the United Kingdom, with a total tonnage of 19,257,000 tons, was still 41·6 per cent of a world total of 49,090,000 tons. By 1933-34 our tonnage had fallen to 17,629,000 tons (20,607,000 for the British Empire). Meanwhile the United States high sea tonnage had risen by over 200 per cent to 9,795,000 tons; world tonnage by 15,270,000 tons, or 32 per cent, to 64,357,000 tons; while our proportion of the world total had fallen to 27·5 per cent. Some 2,000,000 tons of shipping have been transferred from the British flag to foreign flags in the last three years. The amazing thing is not that British shipping



has shown so large a relative decline, but that it has held its own so well in face of so formidably weighted a competition and of such handicaps as have been imposed by our ever higher taxation and rising standard of wages and accommodation for our crews. Only the profits accumulated in the War, and still more the immense fund of accumulated experience and mastery in the handling of ships and of shipping business at our disposal, could account for so stout a resistance. The former advantage has been effectively dissipated in the last few years. The latter is steadily diminishing as our competitors have bought their experience at the expense of their governments. The real, if slight, recovery of the last few months should leave us under no illusions as to the nature of the competition which confronts us, or as to its inevitable end under present conditions.

That is the situation we have got to face and to face honestly and boldly. It is no use pursuing the ostrich policy which we pursued for so long in regard to the protectionist policy of other countries in the field of industry, the policy of persuading ourselves that other nations have embarked on a foolish experiment, injurious to themselves, which they will presently abandon. Our competitors are not the victims of a temporary economic aberration. They are engaged on a great venture, part of a settled policy of national economic expansion to which all the world is committed, in which they will persevere because the eventual reward will, in their belief, justify all the sacrifices involved. Their attitude at the World Economic Conference showed clearly that they will neither drop their policy of themselves, nor because of any persuasion or of any measures of counter subsidy or retaliation that we may apply to them with the idea of restoring world free trade in shipping. Nor would it really help us, in the long run, if we succeeded in such an attempt. For while it is true that the subsidies of some of our competitors have enormously accentuated the pressure upon us, it is no less certain that if we succeeded in establishing world free trade in shipping, we should be gradually ousted by our cheaper competitors, and that, sooner or later, the Japanese and still more those splendid natural sailors, the Chinese, would sweep us off the seas.

The inexorable tide in human evolution which has abolished *laissez-faire* in domestic industry and in external trade, and which has broken down free investment and its foundation the international monetary standard, has also pronounced the doom of a *laissez-faire* shipping policy. Shipowners of the old school, like bankers, or till recently cotton spinners, may bleat for the restoration of what they call "economic competition," and tremulously protest against any measures which, they fear, might provoke "retaliation" against trades which those who can will anyhow take away from them. The duty of the Government is not to ask a divided, distracted, and necessarily short-sighted body of men to find a policy for them, but to lay down the main lines of a national and Imperial policy for themselves, only consulting shipowners as to the details of its execution.

In this matter as in many others we may do well to go back to the shrewd common sense of our ancestors. Our pre-eminence in shipping was not wrested from the Dutch in the seventeenth century by economic competition. We won it because we were determined, regardless of immediate economic convenience, to exercise to the full the control we enjoyed, in part as the main exporters of woollen cloth, in part as owners of more colonies and trading stations overseas, whose trade we could insist on carrying in our own vessels, in part by such treaties as the famous Methuen Treaty of 1703, by which we secured the carrying trade with the Portuguese possessions, including the profitable slave trade, at the price of drinking port instead of claret. That control was embodied in our drastic Navigation Acts which remained in force up to the moment when the American Civil War, the introduction of the iron ship, and the ever increasing use of steam coal, gave to an already established supremacy a tremendous new fillip. It is upon control, and upon control alone, that any practical permanent policy for the future must be based. Happily, from that point of view, our position to-day is far stronger than it was when first we exercised that instrument three centuries ago. The field over which we can exercise control, now as then, is threefold. We can control our own coastal

trade, and, in co-operation with the rest of the Empire, the whole inter-Imperial trade. We can, in the last resort, always insist on carrying at least half the trade between ourselves and any foreign country. We can in any treaty negotiations with countries that are not attempting to build up their own shipping make the utilization of British shipping one of the terms of the bargain, an element in any balance of credits we may insist on striking.

One way of securing the first two objects would be to restore the Navigation Acts. But so drastic a proceeding might create serious dislocation in our own trade, and might not commend itself to other governments in the Empire. A milder and more flexible, but not necessarily, in the long run, less effective method would be to adopt in shipping, as in trade, the principle of protection and preference by differential duties. These could be levied either in the form of special duties on goods or passengers carried inward or outward in foreign ships, or in the form of differential port dues, or both combined. Such duties could be on more than one scale: moderate on the shipping of countries like the Scandinavian countries, which themselves pursued a moderate shipping policy and with which we wished, in any case, to have closer trade relations, and higher on those which reserved their own coasting trade or pursued a policy of aggressive subsidies. There would also have to be a special scale for foreign ships trading between Empire ports which, as against a country like the United States, with its extended interpretation of coastal reservation and enormous subsidies, might have to be fixed at a very stiff figure. Such a system of differential duties would have this further advantage over a revival of the Navigation Acts that it would operate even if applied by this country alone. But obviously it would be far more effective if all, or most, of the other governments of the Empire co-operated. No subject calls more urgently for consultation between the Empire governments than this, and a special Conference or Empire Commission should be convened without delay. Whichever method we decide to adopt we shall not be able to translate it into action until we get rid of the Most Favoured Nation Clause and other treaty provisions which

at present stand in the way of any national or Imperial shipping policy.

The main argument of the do nothing school against a policy of action is that we should be exposing to retaliation the very important shipping trade that we carry on between foreign ports merely in order to secure a monopoly of an Empire trade 90 per cent of which is already carried by British ships.<sup>1</sup> As a matter of fact British shipping between foreign ports is only about 10 per cent of our total shipping. All of this, as well as the remaining 90 per cent, is destined, under present conditions, to be displaced by subsidized or inherently cheaper competitors. Under a policy of control we should be able, by treaty negotiation, to safeguard, or even increase, this 10 per cent, much of which is between countries which are not likely to develop an active shipping policy of their own in the near future. We should also be able to secure a substantially larger share of the Empire foreign shipping, of which our proportion has now fallen to less than 45 per cent. Lastly we should make certain of the inter-Empire trade, whose importance must be judged, not by present figures, but by the expansion of that trade which is an essential part of our whole economic policy. It may well be that within a very few decades inter-Empire trade alone may require a larger tonnage of shipping than the whole of our shipping to-day.

There is a further aspect of the question which it is essential to keep in mind. British shipping, wherever conducted, is of value as a source of employment and profit. But inter-Imperial shipping is something much more. It is an essential element in the whole policy of mutual co-operation and development in the Empire, and is thus in a

<sup>1</sup> This argument is usually supported by a widely quoted set of figures to the effect that of the inter-Empire trade, which is 15 per cent of the world's sea-borne trade, British shipping carries 90 per cent; of the trade between Empire and foreign ports, which is 39 per cent of the world's trade, it carries 60 per cent; while of the trade between foreign ports, which is 46 per cent of the whole, it carries 25 per cent. It only requires the working out of these percentages to show that British shipping is taken at 49 per cent of the total shipping of the world, a figure correct thirty years ago, but nearly twice too high to-day! The total number of ocean-going ships employed in June 1933 was as follows: in inter-Empire trade, British 751, foreign 84; in Empire-foreign trade, British 1,324, foreign 1,654; in trade between foreign ports, British 252, foreign 4,000 (estimate).

quite different category of national and Imperial importance from the British shipping which serves the economic needs of foreign nations. The improvement in inter-Empire shipping facilities is an end in itself, apart from the place it may occupy in the promotion of British shipping as an industry.

All the considerations which have been discussed with regard to the old established system of transport and communication by water apply with no less force to aviation, which is making such amazing progress at this moment. That this immensely potent economic and political link of Empire should be left, in these days, to *laissez-faire*, or to the minimum of subsidy which can keep some sort of inter-Imperial service in existence, is almost unthinkable. It is vital that we should develop without delay a network of inter-Imperial services at the least equal, in speed and carrying capacity, to the best that the United States or any other nation can afford to develop. To hesitate to find the necessary state assistance, whether by way of subsidy or otherwise, would be the height of folly and short-sightedness. Here, too, an inter-Imperial Conference or Commission to consider the whole problem of inter-Imperial air routes, and their development by aeroplanes, flying boats, or airships, should be got together at the earliest possible moment with a view to prompt and whole-hearted action.

## CHAPTER VIII

### THE FINANCE OF GOVERNMENT

#### I. TAXATION

THE complete change, both in economic conditions and in our outlook on social and economic problems, calls for a corresponding reconsideration of our scheme of governmental finance. Our system of taxation is out of date, hampering to industry, and vexatious to the individual. It has been entirely outgrown by the colossal scale of our expenditure, which, in its turn, is largely ill directed and consequently wasteful, even where it is not socially injurious. That expenditure calls for drastic revision. But no revision can reduce its total to figures which would make our present system of taxation tolerable. Our revenue policy must strike out on entirely new lines if it is not to break down altogether. The time has come for freeing ourselves from the dead hand of the Gladstonian tradition of budgetary finance.

The dominating conception of the Gladstonian system was taxation for revenue only. The only permissible taxes were those which could not directly affect industry, whether to help or to hinder: in other words, consumption taxes on a few articles of general use like beer, spirits, tobacco, and tea, and direct taxes on realized profits. It was a system based on one great assumption—fundamental if it was to work successfully, but gradually forgotten—the assumption that the total amount to be raised was so small, relative to the income of all classes affected, as to have no serious indirect reactions upon industry. It was the natural corollary of the individualist, *laissez-faire* conception of politics which confined the activities, and consequently the expenditure, of the State to the absolute minimum. With British industry built up under protection to a state of efficiency and on a scale of production far out-distancing any possible rivals, and able to make the fullest use of the great era of

expansion which followed the Californian and Australian gold discoveries, with income tax at 5d. (soon, it was hoped, to disappear altogether), with social reform regarded as a mediaeval conception wholly out of place in the modern competitive state, the effect of taxation on costs of production was practically negligible. Under conditions so simple and favourable Gladstone's budgets in the sixties were really child's play.

From about 1880 a change begins to creep over the picture. The expansion of British industry is checked in every direction, first by tariffs in the markets of Western Europe and the United States, and presently all over the world and even at home, by the competition of tariff-stimulated industries. Simultaneously expenditure begins to rise, partly on armaments, but even more on a whole series of new social services not included in the philosophy of the Manchester school. The Budget expenditure, which in 1864 stood at £67,000,000, reached £91,000,000 in 1889 when Lord Randolph Churchill resigned over the Navy Estimates, and nearly £200,000,000 by 1913-14. Local expenditure grew even more rapidly. Even before the War it was estimated that the total direct and indirect overhead on costs of production due to rates and taxes amounted to something like 10 per cent. It is significant that this aspect of the matter received comparatively little attention in all the discussions on fiscal policy in the pre-War period. Stress was, of course, frequently laid on the advantage of a tariff in broadening the basis of taxation. But the effect of our taxation on costs of production, and the preference given to foreign competitive imports by not being subject to some countervailing charge, were points to which little importance was assigned.

Then came the Great War. The total public expenditure, national and local (excluding Post Office expenditure), rose from £252,000,000 in 1913-14 to £1,312,000,000 in 1920-21. On the basis of 1913 wholesale prices this latter figure would have to be scaled down to £427,000,000, that is to say an increase of 70 per cent over 1913-14. Even with that correction the figures obviously called for a fundamental reconsideration of the whole of our financial

and economic policy. That was the last thing of which anyone seemed to think. On the contrary, the one dominant idea after the War seems to have been "finance as before 1914, only more so." For nearly five years industry had expanded, vigorously if not always soundly, under the combined effect of an immense demand for munitions and war equipment, of drastic *de facto* protection, and of a colossal inflation. Yet bankers and politicians alike accepted it as axiomatic that we should return straight away to free imports, get back as fast as possible to the gold standard in order to enable "the pound to look the dollar in the face," and at the same time carry on with budgets planned according to the conventions of a bygone era. The policy of excessive deflation, pursued in the vain hope of restoring the financial world of 1914, hit industry in every direction. It involved the drastic reduction of credit when credit was needed for reconstruction and rationalization. Its effect upon our trade was, to all intents and purposes, to impose a penalizing tariff on our exports, and to give a bonus on competing imports. Last, but not least, it increased enormously the deadweight of all our debt, national, municipal, and industrial. No one seems to have realized that the measures taken, at great sacrifice to the taxpayer, to pay off debt, as part of the policy of deflation, actually increased the real burden of the debt by far more than the nominal reduction achieved. On top of this we piled up expensive social legislation, largely required to mitigate the social consequences of our financial stupidity.

It is, of course, true that our internal debt is, from the national point of view, only a record of government payments made, mostly at inflated prices, for the effort of our people during the War. We may have lost, and still be losers, in so far as that effort might have been productively employed on strengthening our capital equipment as a nation. In so far as it was extra effort evoked by patriotic enthusiasm, or effort diverted from the production of consumable luxuries, no real loss was involved. In no other sense is our internal debt a burden on the nation as a whole. What is collected by taxation to pay for interest or redemption goes back to the community and, in its turn, bears



its share of taxation. That does not, however, alter the fact that an increase in the real amount, measured in terms of goods and services, of the taxation required to meet debt services does press with peculiar weight upon productive industry, and that the theoretical advantage to the *rentier*, as holder of government debt, may be far more than offset by his loss as a holder of industrial securities.

The whole conception with which our budgetary system set out was that its taxes, while representing a modest subtraction from the spending power of all classes, could not possibly affect costs of production. Direct taxes obviously could not do so, as they were only tapped from profits after production had taken place. Nor was it conceivable that the thrifty income-tax payer of the Victorian era would meet any slight increase in them by reducing his investments rather than by cutting off some unnecessary luxury. Indirect taxes were largely optional, and so could not be passed on in the shape of insistence on increased wages. So ran the theory, and so long as taxes remained below a certain level, it may to a large extent have held good. It certainly does not hold good to-day. Quite apart from the direct taxation of profits placed to reserve by industry, the ever-progressive raising of income tax, surtax, and death duties on the class from which the replacement of working capital mainly comes, cannot but have had a profound effect upon industry. In a statement presented in 1931 to the Chancellor of the Exchequer by the National Council of Industry and Commerce, it was calculated that industry has been directly deprived of capital by taxation to the tune of £1,668,000,000 over the twelve years ending 1930-31. Assuming that, on an average, each worker requires £500 of capital to be at his disposal before he can earn wages, this meant, so the memorandum argued, that 3,336,000 workers had been deprived of the opportunity of earning a wage. In so far, on the other hand, as this money was required, not for new production, but for re-equipment, its withdrawal had meant a loss of competitive efficiency even more serious in its ultimate effect on employment.

Moreover, the whole trend of our taxation has discouraged the desire for investment as well as reduced the

amount available. There is little inducement to the rich man to invest what income the tax collector leaves him, in order that a third of the interest may be taken from him while he lives, and half of the investment itself be confiscated when he dies. Much better to get full value by spending it on untaxed luxuries. The psychological influences weigh even more, perhaps, with the professional and small business man than with the wealthy capitalist. In his case, moreover, there is another factor which the simple mid-Victorian theory ignores: the determination to maintain a certain standard of living, and to pass on extra burdens by increasing his fees or his prices. This factor applies over a very wide range of income-tax payers, to whom the tax is, after all, like rent or any other expense, just an item of cost that has to be made good. It applies even more to the working man, both as regards so-called optional taxes and even more as regards such ineluctable taxes as rates, which raise his rent, or insurance stamps.

In one way or another, whether by the withholding of capital or, in an even larger measure, by an increase of costs cumulatively transmitted and converging upon the factory, the mass of our taxation to-day is a direct addition to our costs of production. It constitutes, in fact, a veiled excise upon production whose accumulated incidence, in the case of fully manufactured goods, may run up to as high as 25 per cent or more. That is a situation never envisaged when this country adopted the policy of Free Imports and its present scheme of taxation. It was always part of the straitest Free Trade doctrine that an excise duty should be balanced by a corresponding customs duty. Such a precaution was obviously demanded, not only in fairness to the British producer, but in the interests of the revenue itself. From this latter point of view it is immaterial to what extent the imported foreign article has contributed to the revenue of its own country. What matters is the loss to the Exchequer by the displacement of revenue-yielding British production by non-revenue-yielding foreign production. The demands on the Exchequer, on the other hand, are in no respect diminished, but on the contrary increased, by the further fact that the displacement of British production involves the necessity

of sustaining, at the public expense, the workers who have been deprived of their employment. The rate of taxation has consequently to be raised on a reduced volume of British production, and the veiled excise on that production, the invisible protective tariff in favour of the foreign producer in our own market, is still further increased.

So long as Free Imports were still enforced we were in a vicious circle in which the difficulties of the Exchequer and the handicap against the British producer were each progressively intensified. By 1931 British industry was within sight of collapse and the national finances on the verge of breakdown. The introduction of a tariff which barely counterbalances the veiled excise on British production, helped at the outset by our going off the gold standard, stayed the *débâcle*. The successful reduction of the rate of interest over a large part of our public debt, and the suspension of the old "orthodox" debt redemption policy, have further appreciably eased the situation. But the burden of taxation is still intolerably high. The essential need to-day is to ease the burden, in so far as it cannot be actually reduced, by broadening the shoulders that bear it: in other words, by an increase in the total productive output of the nation. As taxation, on the modern scale, must affect production one way or another, *the first consideration of the Chancellor of the Exchequer in dealing with any tax, or other financial measure, should, therefore, be its effect upon national production, and not its immediate result in terms of revenue.* It is from the national production that revenue is drawn through the whole body of taxes, and each tax should be judged, as part of the financial scheme, not so much by what it brings in directly as by what it does indirectly to increase or diminish the revenue as a whole.

A simple illustration will serve to make the point clear. Supposing that a duty of 10 per cent upon a particular manufactured product allows £1,000,000 of that product to come in, it will yield a customs revenue of £100,000. Supposing, again, that by raising the duty to 20 per cent importation is cut down to £100,000, the resulting customs revenue will be only £20,000. But in so far as the consequence of a higher tariff has been to increase domestic

production by £900,000, there follows a whole series of indirect consequences upon the revenue which have also to be taken into the account. The production added, in so far as it is made up of wages and profits, pays its contribution, through the channel of all the different forms of taxation, to local and national revenues. With a "veiled excise" of something like 25 per cent, under present conditions, that contribution would amount to as much, possibly, as £225,000. To that has to be added the saving in unemployment relief and social assistance of all kinds resulting from the employment of workers otherwise idle. These, in turn, as fully-paid wage-earners, will afford a much better market for other home industries than they would as dole drawers, and to that extent increase production, and consequently also revenue. A loss of £80,000 of direct revenue has, in fact, resulted in an indirect gain of two or three times that amount.

A typical instance of the unfortunate effect of looking to immediate revenue only has been the horse-power tax on motor-cars. This tax, by forcing British manufacturers to concentrate on the production of low-power cars, suitable enough on our good roads, has, ever since the War, made it almost impossible for them to compete with the cheap high-power small cars which alone are of any use on the rough roads of most of the Empire and of many other neutral markets. Yet the obstinate refusal of the Treasury to surrender any immediate revenue has steadily stood in the way of an alteration which might have made an immense difference to our whole industrial position in connexion with one of the world's most rapidly growing industries. Some modification in the right direction was, at long last, made in the 1934 Budget. But the situation is still far from satisfactory, and will not become satisfactory until a Chancellor of the Exchequer adopts the principle that all taxation in connexion with motor-cars or aeroplanes or any similar new industry with great possibilities must be governed, first, last, and all the time, by the idea of developing that industry to its fullest.

These considerations apply no less to direct taxation. Reference has already been made to the need for recasting

our system of stamp duties on the issue and transfer of securities so as to make them definitely subserve the end of stimulating home and Empire development rather than foreign development. Our income-tax law needs drastic revision in the direction of exempting from income tax profits that are directly put back into production in replacement of machinery, expansion of works, or in any other way. More than that. Direct taxation, to-day, whether in the shape of income tax, surtax, or death duties, has reached a level at which not only the stimulus both to enterprise and to thrift is definitely diminished, but the actual working capital of industry, and even more of agriculture, eaten away. Graduated taxation is, up to a point, both morally and fiscally justifiable and convenient. But it has been raised to a height at which it is beginning to destroy itself. You cannot "conscript wealth" indefinitely. The time has come for us to retrace our steps by a considerable transfer of taxation from earning and enterprise to expenditure, from direct to indirect taxation.

In this connexion we must get away from the notion that indirect taxation is taxation of the poor. That was substantially true when it was only imposed on a limited number of articles of universal consumption like tea or sugar or tobacco. It is not true of an all-round tariff where home production generally meets the bulk of the ordinary and cheaper demand, while the goods that come through and pay duty are largely luxuries and specialities. There is much, indeed, to be said, in the case of luxury articles, in favour of a duty higher than ordinary tariff considerations would warrant, on the ground that the rich consumer can afford to pay extra either in the shape of duty or of encouragement to domestic industry.

But over and above these readjustments it will be necessary to look for new sources of revenue. I believe these should be drawn, not from fresh taxation, but from an increase in the actual revenue-earning assets of the state. As Lord Milner pointed out in *Questions of the Hour*, taxation was originally only a supplement, in emergencies, to the revenues furnished by the royal (which was then also the public) estate, while income from state property

is in many other countries an important item of revenue. The conclusion he drew was not that the state should nationalize industries now under private management, but rather that it should become a "sleeping partner" in industry, "leaving the initiative and the management, under reasonable control, to private enterprise, but reserving to itself a share in any surplus profit, after the active partners, Labour and Capital, had received an adequate reward."

Lord Milner suggested, as one method of doing this, the assignment to the state, on all future issues of capital, of deferred shares participating in all profits over a certain figure. The same principle of a partnership in that increment of value which is at any rate in part due to the community, could be carried out in a variety of ways. At this moment all kinds of industries are soliciting government help to tide them through the present crisis. Is there any reason why the giving of that help, whether to sugar beet, or, it may be, to central abattoirs, or to shipping, or, more generally, in the shape of export credits, trade facilities or subsidies of any kind, should not be given subject to the least embarrassing and yet ultimately perhaps most lucrative condition, that of a participation in the "equity" of the industry assisted? Such help might be given not only to industries in this country, but to industries in the Colonial Empire, or even, subject to careful safeguards, to Colonial governments (see p. 241). For new countries development by partnership in the "equity" of their resources as they develop is far better than the policy of development by loan, with its crushing burden in times of depression or falling prices. Again, the building of new arterial roads is everywhere creating unearned values which are being recklessly exploited by ribbon development to the detriment of all rational planning and even to the impairment of the very value of the roads for their primary purpose. Why, instead of hankering after administratively unworkable schemes of land taxation, should not both state and local authorities have the courage and foresight to acquire sufficient land along these roads both to control development and to provide an income for the future? The legislative powers to do this are in existence, but the Treasury has

hitherto steadily discouraged their exercise, and it has apparently been nobody's business to override the Treasury and to see that the more intelligent provision of the Legislature was not defeated by departmental obscurantism.

What is wanted is that someone should do for England what Joseph Chamberlain did for Birmingham more than sixty year ago, make reconstruction pay for itself and provide a growing revenue out of its success. That is not Socialism, but its very antithesis, a policy of partnership with, or participation in, private enterprise in which the public and the private interest are identified. Such a policy will naturally cost money, or rather call upon our credit. But a Parliament which, for the sake of avoiding the inconvenience of rapid exchange fluctuations, is prepared to give the Chancellor of the Exchequer a blank cheque for £350,000,000 for a continuous secret gamble on the world's Stock Exchanges, is not going to hesitate if asked to invest twice or even ten times that sum in a business-like programme of national regeneration. The difficulty does not lie in Parliament, or even in the nation. It lies in the lack, at the centre of government, of the vision and courage required to conceive and carry through bold new policies to meet a critical new situation. And for that the blame lies, not so much, perhaps, in the deficiencies of individuals, as in the failure—now as in the War—of a Cabinet system fitted only for routine, and incapable of framing or executing policy on the heroic scale required.

## II. EXPENDITURE

The budget of 1934 provided for a national expenditure of £730,000,000 (excluding Post Office and Road Fund). Adding another £150,000,000 for local expenditure, and allowing for the virtual taxation involved in the contributions of employers and employed to the various insurance and pension funds, the real total of public expenditure amounts to something like £950,000,000. We have committed ourselves in more than one direction, notably in the matter of Old Age Pensions, to inevitable automatic increases. Circumstances beyond our control are destined,

no less inevitably, to lead to a substantial increase in our defence expenditure. On the other hand, if present tendencies continue, our population will at an early date reach a standstill, with a subsequent steady increase in the proportion of dependent and non-productive old people. What are we to do about it? What economies can we effect which will not be reversed almost as soon as made, or which will not do as much harm as good?

What we have really got to decide, before we can tackle the problem, is what we mean by "economy." If we only mean economy in administration, avoidance of waste in detail, then we have got to realize, as the May Committee did, that in this narrower sense our administration is already carefully conducted, and that any savings which can be effected, however desirable in themselves, are not going to make any very great difference to the broad figures of our expenditure. If, on the other hand, our idea of economy is the drastic reduction of State activities involving expenditure—and that is perhaps the commonest sense in which the word economy is used in politics to-day—we are bound to find ourselves up against the fact that the *laissez-faire* era is over. It has gone and cannot be restored. Neither the problems of our day, nor our own attitude towards them, will allow the state to wash its hands of them. We can no more ignore the social consequences of unemployment than we can ignore the armaments of potential external enemies. The only result of panic economy measures based on ignoring them is a speedy reversion to panic extravagance.

There is a third sense in which the word economy can be used, and that is economy in the direction of effort towards an accepted end. That is the only economy which can yield substantial results and secure continuous political support. We must make up our mind as to our aims and then set to work to find out the most economical method of attaining them. Take defence. We spend at present on our security services some £124,000,000 a year: £60,000,000 on the Navy, £43,500,000 on the Army, £20,650,000 on the Air Force. When estimates come round each department conducts its separate battle with the Treasury. The resultant figure in each case depends partly on the persuasive or



combative ability of the Minister in charge, partly on the momentum of the department as represented in its past estimates. The Air Ministry, as the youngest, has naturally so far come off worst. There is no co-ordination from the point of view of defensive economy, no decision as to which form of defence is most urgent, or as to which form yields the greatest return in security per million of expenditure. That can only be achieved when the Treasury has to deal, not directly with the departments, but with a Policy Cabinet advised by a Minister and a staff responsible for Defence Policy (not administration) as a whole. True economy in our provision for security can, in fact, only be attained by a far-reaching reconstruction of our planning machinery at the top.

The same applies, in principle, to the vast bulk of our expenditure on Social Services, now amounting to nearly £500,000,000, more than four times as large as our expenditure on defence. Here, too, we are dealing with a series of services which have developed by their own momentum, without sufficient regard to their mutual interaction, or to their relative value in contributing to that national standard of life which all parties are agreed in aiming at, and without sufficient distinction between the preventive and the merely ameliorative or eleemosynary elements of our policy. Here again the only hope of achieving true economy lies in clearly defining for ourselves our social aims, examining with a perfectly fresh mind the relative economy and efficiency of the various methods of achieving those aims, and then recasting our social policy on the line of our conclusions.

Broadly speaking, one might define social policy as having a twofold object. The first is the provision, through public agencies or organizations, of social or cultural needs which can be more effectively supplied by public action than if left entirely to private commercial initiative. The second is the maintenance, for all our citizens and their families, of a certain minimum standard of social and cultural life. The two objects tend to some extent to overlap. But they are, in principle, distinct, and confusing them is not the least among the causes of the extravagance of our

present methods. A typical instance of such confusion, even if unavoidable in present circumstances, is the state of the housing problem. It was, no doubt, necessary after the War, owing to the cessation of all house-building over a number of years, and to other causes, for the state to intervene and subsidize private and municipal activity. But to treat it as axiomatic that the ordinary working man cannot afford to pay an economic rent for a minimum standard of decent housing and that the state must, therefore, continuously assist him, is absurd. The common-sense conclusion, surely, is either that wages are too low, and that our general economic policy should concentrate on raising them, or that the building trade is inefficient and that we should take steps to improve its efficiency and to eliminate any handicap from which it may be suffering.

Take again the problem of our national health. No one, since Disraeli, has, in theory at least, disputed that the physical health of the nation should be one of the first cares of government. There is much in that connexion that government alone can do really efficiently. Only government can inaugurate and see through effective nation-wide action against tuberculosis and venereal disease, against maternal and infantile mortality, or against the evils of alcoholic excess, whether by regulative legislation, by the provision or subsidizing of clinics and research institutions and of trained staffs, or by including more definite health education as well as physical training and inspection in our national schools. Insurance against illness is, on the other hand, more directly an individual responsibility. That the state or private employers should encourage this by making contributions is an excellent idea. It may even be justifiable that the state should make such insurance and such contributions universal and compulsory. But when we contrast the immense sums spent out of the ordinary taxes, as well as out of the special taxes described as "contributions" by employers and employed, on mitigating the financial consequences of ill-health, with the exiguous provision for directly preventive services, we may well wonder whether, on the health side, the nation is getting the best value for its money.

So, too, with unemployment. The regular employment of our people is the indispensable foundation of any national standard of life we may set before us. Yet we are still only groping towards the conclusion that an economic policy which aims at securing stability of employment should be the foundation of our social policy, and that mere palliative measures, after unemployment has occurred, should only be regarded as a secondary element, to be reduced to the smallest compass possible. Monetary policy, fiscal policy, educational policy, and, in emergency, the provision of special training facilities, public works programmes, temporary subsidies, or export bounties—all these, and not insurance or relief, should represent the main line of approach to the unemployment problem. The present Government has done an excellent piece of work in introducing some order into the chaos and confusion of our unemployment relief policy, by clearly separating insurance from public assistance. But our sense of proportion as to what should be spent, both in money and in effort, upon the creation of employment, as against the subsidizing of unemployment, is still all wrong. Here, as over the whole field of social policy, the key to economy can only be found in an active and effectively co-ordinated policy of national development. For it is not until such a policy has begun to take effect that our vast expenditure on palliatives can be, not only automatically reduced, but also drastically revised.

In education, too, it is at least open to doubt whether, as a nation, we are getting full value for an expenditure which now amounts to £100,000,000. It may well be that only the state can effectively provide a certain minimum standard of education which no citizen should be without. But we have gone on raising that minimum, and are continually urged to raise it still further, with very little thought of whether it is really likely to be as useful to the individual as one left more to private initiative, or whether the same expenditure, or less, might not achieve far greater results, at the other end of the educational scale, in raising our higher standards. Have we ever really considered whether, say, an additional £1,000,000 a year, spent on national subsidies to the higher forms of science and art and literature

—in more generous support to universities and specialized educational institutions, in the endowment of research, in rewards to inventors, students, or artists, or in the maintenance or subsidizing of national opera houses, national theatres, and cinemas—might not do infinitely more for our people as a whole than the millions that would be spent in adding a year to the school-leaving age? Is our test to be what will satisfy a so-called “democratic” demand for an increasingly expensive education for everybody, regardless of their individual capacity or of their subsequent opportunities to make use of that education, or is it to be the creative development of the national faculties?

The foregoing pages have dealt only with certain broad aspects of our system of Government finance, and I have not attempted to deal with many more detailed though by no means unimportant features of our present system which call for reform. I confess I find it difficult to see why the finance of a great country cannot be dealt with on business lines, and a clear distinction drawn between capital and current expenditure; why all expenditure sanctioned but not actually spent by March 31st should be returned to the Sinking Fund, instead of departments being encouraged to be economical by getting some advantage out of savings effected; or why there should not be something in the nature of a reserve fund accumulated in prosperous years and available to reduce taxation and stimulate expenditure in years of depression. But an investigation of these matters, both from the purely financial point of view and from that of the interaction upon finance of parliamentary procedure and, indeed, of our whole system of government, would carry me somewhat beyond the general scope of the present work. Enough to say that there is here a wonderful field for a Chancellor of the Exchequer with a mind both revolutionary and constructive.

## CHAPTER IX

### THE REVOLT AGAINST ECONOMIC ANARCHY

#### I. A PLANNED FRAMEWORK

THE desire for peace, for security, for order, is fundamental in human nature. The growth of civilization has been based on it, even if that same growth has also owed much to the qualities which competition and conflict have evoked both in individuals and in nations. The economic philosophy which dominated the last century deliberately ignored that fundamental need. Or, rather, it assumed that if it were recognized in the field of physical force, it need not apply to economic and social relationships. So long as governments kept the peace against external or internal violence, suppressed burglary and theft, and enforced damages for breach of contract, the economic world should be left free to unlimited competition conducted with every weapon and every artifice that human ingenuity might discover. Buy where you please; sell where and how you can; invest where the return is highest—and it is no one's concern to ask whom you may be depriving of his living, what nation you may be weakening or strengthening by your actions. Each man for himself and the Devil take the hindmost. No principles of morality, political or individual, entered into the matter. Deliberate fraud ought, perhaps, to be excluded; but even there high priests of the doctrine, like Cobden and Bright, objected to interference with the adulteration of food, as a matter more properly left to the individuals whose health was ruined. *Caveat emptor!*

The movement of which this gospel of *laissez-faire* was once the expression—and has since become the *reductio ad absurdum*—was, for all that, an essentially justified protest against the unprogressive rigidity of an earlier age. It was an insistence on the right of individual ability to make good, on the need for fluidity, or at least flexibility, in social relationships, on the importance of competition and of the

scrapping of out-of-date methods as essential elements in progress. Based on a pre-evolutionary philosophy, it yet was sufficiently up to date to preach the doctrine of the "survival of the fittest," though with only a very crude notion of what that doctrine implied. Like the political individualist Liberalism of which it was the counterpart, it has made a mighty contribution to the progress of the world during the last hundred years, even if it has wrought much incidental mischief. Beneath all the exaggeration and shortsightedness of its advocacy there has lain a core of vital truth which, in the necessary reaction towards a more ordered and organic conception, we can no more afford to ignore in the economic than in the political sphere. Individual effort, the individual desire to excel, the individual will to power, will always remain the indispensable vitamins of human society.

The conception of continuous progress by free adjustment which the *laissez-faire* theory envisaged was, however, based on an assumption which was never warranted by the facts even at the outset, and which has since become entirely meaningless. That was the assumption of a world composed of individuals sufficiently equal in their qualities and opportunities to allow of the only kind of competition that really creates efficiency and results in easy and continuous adjustment. To begin with, its advocates, looking at the economic process through purely "bourgeois" spectacles, completely ignored the working man's point of view. Labour to them was a commodity, an item in manufacturing costs, never an end in itself. Consoling themselves with the thought that, in those early days of immense expansion, quite a considerable handful of working men by thrift and ability became successful capitalists, they refused to face the fact that for the mass of industrial and even more of agricultural workers there was no chance of anything better than a hand-to-mouth existence on terms ultimately destructive of all decent human life. Under the banner of equal freedom the capitalist enjoyed all the economic privileges and none of the responsibilities of the slave-owner. There was a moment when Marx's vision of a world "proletariat" kept down to the lowest subsistence level by

an oligarchy of world capitalism had in it at any rate an element of plausibility.

Long before things had drifted far in that direction social legislation stepped in to mitigate the worst evils of economic anarchy. Even more effective, in this country at least, was the action of the working men themselves in combining in Trade Unions for the maintenance of reasonable wages and reasonable conditions of work. But while Social Reform and Trade Unionism powerfully corrected the balance at home, they at the same moment tended to destroy that free international individual adjustment which the *laissez-faire* theory postulated. The manufacturer in low-wage countries was put at an advantage which, however deferred for a time by lack of capital, machinery, and experience, was bound to tell in the end. The destruction of invested capital and the wholesale unemployment of workers in the higher wage countries was the inevitable consequence. But here again collective action stepped in to mitigate the international consequences of *laissez-faire*. One after another the nations—even England at long last bowing to facts which had been staring her in the face for over a generation—imposed tariffs to redress the unfairness of international competition, whether due to lower wages, to more powerful economic organization, or to any other factor. The entry into the economic field of nations, as such, concerned, soon, not only with the protection of their home markets, but with the capturing for their nationals of foreign markets, introduced yet another formidable complication into the picture. So did the emergence of individual enterprises on a scale so large, and possessed of such immense reserves of power, as to be almost more comparable to states than to ordinary private undertakings in the control they could exercise over the situation in their particular field, and in the destruction they could inflict upon their competitors.

In place of the continuously self-adjusting and progressive world of competition between comparable individuals which the theorists postulated, instead of the beneficent economic anarchy which they prophesied, we have seen the emergence of a world in which anarchy is still the

governing principle, but an anarchy rendered far more dangerous by the disparity in the power of the competing and conflicting elements, whether individual or national. Readjustment, under these conditions, is no longer continuous and progressive, but cataclysmic. Not merely individual concerns, but whole industries, whole nations, the whole world even, are exposed to ruinous crises by the incalculable operation of forces which, under present conditions, are wholly beyond control. The enhancement of productive power by modern machinery would seem only to have accentuated the possibilities of economic dislocation. We have, in the last few years, witnessed an unparalleled world-wide depression, resulting from the deflation of an unwisely restored international monetary standard. It has been aggravated by a catastrophic credit deflation in the United States following on an orgy of insane speculation. In our case, it has been superadded to the already difficult problem of adjusting an unbalanced industrial system, built up on the supposition of at any rate a large measure of world-wide Free Trade, to the conditions of a world in which economic nationalism, in its narrowest forms, holds the field.

The spectacle of a world self-paralysed, equipped with all the productive power to insure universal comfort and yet reduced to universal want, surfeited with good things which can find no purchasers, and peopled by hungry millions who are not allowed either to exercise their skill or to satisfy their human needs, has become intolerable. The working classes everywhere are determined that somehow or other the system that produces such results, and under which they bear the brunt of these recurrent disasters, shall be changed. Every patriot is concerned to find some means by which his own country, at least, shall cease to be the sport of world economic forces. The conscience of mankind everywhere is profoundly stirred. On all sides the demand arises for putting an end, or at least some limit, to the present economic anarchy, and for substituting some more rational plan under which the immense resources of modern production should afford reasonable security and well-being to the mass of our fellow-men.



What is to be the answer to that demand? The Socialist is ready enough with his formulas of "production for use and not for profit," of the "socialization of the means of production, distribution, and exchange." How far do these really carry us? Current Socialist economic theory, as I have pointed out earlier (see pp. 124-126), is simply the old individualist economic theory turned upside down, with the state, as the representative of the workers, stepping into the place of the capitalist, and organizing the whole of society as one big undertaking, the profits of which are then socially distributed. But will there be profits? Can such a mechanical scheme, on such a scale, ever secure the efficiency which alone can yield a social dividend? Whatever its defects the system of private production is continuously corrected and kept up to the mark by the test of service to the community in respect of each particular product. A bureaucratic system is subject to no such continuous corrective stimulus. It is subject at most to the periodic test of a general election at which economic issues may be entirely obscured and overlaid by wholly irrelevant considerations. Nor does it follow that even the most decisive popular mandate for reform in business methods would really effect much. The power of a political chief to reorganize a great department is a very limited thing, at any rate in a country where civil servants cannot be dismissed—let alone put against a wall and shot or sent into slave camps—for falling short of the highest competitive standard. The inefficient private business is continually being liquidated. We, at any rate, would have no means of liquidating inefficiency in the vast and cumbrous bureaucratic machinery that Socialism would set up.

No small part of the appeal which Socialism makes to the ordinary worker is the idea that if the state were placed in the position of the "employer" it would be both able, and in duty bound, to find employment for everyone. Unemployment, in fact, is widely looked upon as the result of the selfishness or, alternatively, the incompetence of the "employing class." The fallacy in this widespread view lies in overlooking the simple fact that the so-called "employer" or capitalist is not the real source of employment. He is

only an organizer endeavouring to secure employment for his workers from the ultimate and real employer, namely the consumer. So long as the consumer is free to buy where he pleases, Socialism could not find work for a single man, unless it could by superior efficiency, or lower wages, or subsidy at the expense of the general body of citizens, produce goods at a competitive price. Nationalizing production is, indeed, futile from the point of view of creating employment unless consumption is nationalized as well; in other words, unless the citizens of a country are, through a tariff or similar control of importation, directed towards employing their own fellow-citizens by their purchases. But if consumption, which is the source of employment, is nationalized by these far simpler methods, then, so far at any rate as securing the maximum total of employment for a country is concerned, the cumbrous apparatus of Socialism is superfluous.

Nor has Socialism ever faced the crux of the whole position, namely the unit to which it is to apply. Born and bred out of Liberalism, it is essentially abstract and internationalist in its outlook. Yet, unless and until a single universal Socialist world state is established, the "state" for the purposes of socialization must mean some particular existing state governed inevitably in the interests of its own citizens alone—and the more democratic the more selfishly. The anarchy of competition between modern large-scale capitalism would be replaced by the even more formidable conflict of vaster capitalist entities with whole nations as their shareholders—shareholders with an unlimited liability to find fresh resources for a conflict, whether in the tightening of their belts at home or in the sacrifice of their lives on the field of battle. We have already had sufficient experience of the disorganizing effect of Russian dumping to make us hesitate before we welcome the prospect of a world of competing Russias. The problem of economic nationalism with which the world is confronted to-day would be no nearer solution, but would only be accentuated, by the spread of Socialism as a system of government.

For all that, neither these nor any other criticisms of

Socialism are going to carry any weight with the mass of our workers, unless they are convinced that there is an alternative policy which will achieve the security and stability for which they are looking. They are not prepared to continue to be the passive victims of economic forces which they believe can be directed and controlled, and which they believe to be disastrously misdirected for want of control. The old grievances against capitalism, as exemplified in the slave-driving, wage-cutting spirit and methods of an earlier day, have long since lost most of their substance, in this country at least. But the tradition of bitterness has remained, and is directed to-day against an abstract "capitalism" whose crime is not tyranny but incompetence. Our task is to convince our workers that it is not the capitalist organization of industry, as such, that is at fault, but the absence of national direction and control; that it is not capitalism but *laissez-faire* that is the enemy; and that there are methods of legislative direction and planning which can give security without paralysing initiative, which can safeguard personality and afford play to individuality without leaving the field to anarchy. Against abstract and delusive theory we must put forward a plan, clear in its outlines, covering the whole field, practical in its methods and yet appealing to the imagination.

The main framework of that plan must lie in the domain of general economic policy. We must create a mutually balanced and stable system of production, distribution, and contract. The first element in this must be the effective control of economic competition from outside. We must have a tariff system so devised as to secure the fullest all-round development of mutually required production. We must aim, at the outset, at securing a proper balance between primary production and manufacture. We should, throughout, be cautious in encouraging, by treaty or otherwise, any development of import trades which would unduly impair that balance, or any development of export trades which should leave us in any position of undue dependence upon the play of political or economic forces outside our control. Without prejudice to the need for an element of competition with the outside world, in our own market

and abroad, or for a complementary exchange of special natural resources, we must make sure that our main weight rests within our own economic system, and that no circumstances outside can unbalance us. That, at any rate, must be our ultimate goal. The change over from our present unbalanced state can only be made by degrees, and in many directions we shall still for some time have to make what efforts we can to maintain export trades which we can eventually afford to abandon, and to tolerate imports with which we can eventually dispense.

The second and no less important element in our framework must be a stable monetary system as the basis of all internal contractual and social relationships and as the surest guarantee of steady economic progress. Whatever else we do we must never again sacrifice the stability of our own price-level to the re-establishment of exchange parity with foreign countries—never again wreck the foundations of our whole structure for the sake of a foreign trade and foreign investment that will, and ought to play a continuously smaller part in our economic life. A necessary correlative, both of our tariff and of our monetary policy, must be the effective control of foreign investment. Apart from any question of our own requirements for capital, or of the undesirability of equipping the resources of our competitors, we must face the fact that investment in another country means, in the long run, payment in the products of that country. In other words, our foreign investments must be kept down to what we are prepared to receive permanently in foreign imports or take out in foreign travel. It is not a question of prohibiting foreign investment, or of subjecting it to bureaucratic regulation, but of such flexible control, by taxation or otherwise, as will keep it within the desired limits.

Our framework must not only be rightly constructed but adequate in its scale. From all that has been said in earlier chapters it will be evident that a balanced economic system limited to the resources of this little island could not be achieved without a reduction of our standard of living and total population such as no sane person would dream of contemplating. On the other hand, an organized world

scheme of economics is even more completely out of the picture. The only possible framework for us must be based on some economic group system, and from that point of view the Empire obviously offers the most natural as well as the most promising opportunity for us—as indeed for all its members—for an economic partnership. But the conception which should guide us is not so much that of a single economic framework, as of a group of economic units, each aiming at a certain measure of balance within itself, but correcting the insufficiency of that balance and allowing of the free expansion of the special resources or aptitudes of each unit, by mutual economic co-operation within the group as a whole. Effective mutual preference rather than complete inter-Imperial Free Trade should be our aim. Such a system, unitary as against the outside world, but divided up by internal bulkheads, should provide no less opportunity for economic development but with less risk of violent internal fluctuations, than a vast unpartitioned economic system such as that of the United States. In any case it is in practice the only kind of system which is, for us, within the domain of political possibility.

## II. INDUSTRIAL SELF-GOVERNMENT

So much for the main outer framework. But no such framework, however essential to secure general stability as against external influences and over broad periods of time, is sufficient by itself to prevent the lesser but still serious fluctuations caused by unbalanced internal competition, by the unregulated rush of producers into one line of production or another, or by the alternation of general speculative boom and panic slump. For this latter danger the remedy must be sought mainly in the monetary field, in the maintenance of stable price-levels, and in other measures which a central monetary authority can take to discourage speculation or encourage the hesitant investor. But there is undoubtedly also room for the judicious spreading of necessary public expenditure so as to correct the excess or deficiency of private expenditure. It may be, as Mr. Lloyd George has suggested, that this might with

advantage be the subject-matter of a separate annual budget, kept entirely distinct from the normal budget dealing with current revenue and expenditure.

For the former danger we must devise some structural organization, some capacity for planning and regulation, within productive industry itself. If we reject Socialism, that is to say the bureaucratic regulation of industry, subject only to intermittent and ineffective parliamentary control, we must be prepared with our alternative. The alternative to which constructive Conservative thought has been increasingly turning of recent years is that of industrial self-government subject to statutory conditions and enjoying statutory powers. The conception is one long familiar to us in the professions. Lawyers and doctors, for instance, are members of self-governing corporations which lay down, with the force of law, both the qualifications for admission to their membership, and the general rules by which the conduct of their members is governed.

In the years immediately following the War, when the most serious menace to our industrial system seemed to be the increasing deadlock between Capital and Labour, industrial peace naturally occupied the forefront of the picture in the minds of those who were studying the problem. The establishment of the so-called "Whitley Councils" over a great part of the field of industry inevitably revealed the weakness of a voluntary system of agreements which was always liable to be defeated by the refusal to join or defection of a small minority. The idea of giving statutory force to the conclusions of Joint Industrial Councils, already possessed by Trade Boards in the so-called Sweated Industries under the Acts of 1909 and 1918, and by Agricultural Committees, was put forward in a Bill which received a second reading by a large majority in 1924, and the idea was in 1933 actually carried into law by the present Government in reference to the cotton industry.

The most far-sighted advocates of such a policy, as, for instance, Mr. T. B. Johnston of the pottery trade, have, however, always realized that true industrial peace must rest upon a broader foundation of common interest than mere agreements as to wages and conditions of working.

They have advocated Joint Industrial Councils empowered to deal with the maintenance of selling prices, the regularization of production and employment, industrial health and technical education, research, trade information, and statistics of all kinds. They have, in particular, laid stress upon the publication of the *average* wages and *average* profits on turnover over the whole of an industry as an essential basis of mutual confidence in the partnership between Capital and Labour. That partnership, indeed, would seem to be as essential to any organization aiming at stability of production and employment as to one only concerned with industrial peace. Whatever the precise method adopted, the problem of industrial organization cannot be divorced from the problem of industrial peace, and the structure of industrial self-government will have to rest upon the equal co-operation of organized Capital and organized Labour.

Of late the problem has been brought into prominence more particularly in its relation to the marketing of agricultural produce. In 1931 Dr. Addison secured the passage of a far-reaching Agricultural Marketing Act under which a two-thirds majority of producers of any agricultural product was authorized, subject to the approval of the Minister and of Parliament, to adopt a scheme, binding on all producers, for regulating the marketing of that product. The Act would probably have remained a dead letter so long as Free Trade prevailed, though its general principles were embodied in the Milk Marketing scheme which deals with a naturally protected product. Nor would there have been any immediate demand for it among producers if the National Government had been content to apply ordinary tariff protection to agriculture. But under the terms of the last Anglo-German commercial treaty, the Government were not at liberty to adopt their alternative policy of "quota" restriction on imports unless it was accompanied by some internal regulation of supplies. The Marketing Act of 1933 was thus, to some extent, devised in order to get round a commercial treaty, and the creation of new marketing organizations was forced upon producers as the only condition upon which they could receive any measure of protection.

The agricultural marketing schemes have suffered from the circumstances of their initiation. The conception of price raising through restriction of production has tended too much to dominate their horizon. This has been accentuated by making them entirely producers' or processors' schemes instead of bringing in the distributor, and by the inevitably somewhat narrow outlook of the first representatives of compulsory agricultural self-government. In the latest proposals, those for the herring industry, the organization is to include representatives of the fishing, curing, and marketing sides of the industry. But the governing board is on a nominated basis, which may, indeed, prove the soundest basis in the long run for many industries, and while eventual election is contemplated no definite scheme is foreshadowed. In any case we are dealing with *ad hoc* emergency schemes, and a more systematic planning of agricultural production as a whole in the national interest, and in organic relation with further manufacture and distribution, will still have to be devised. But willy-nilly, and more or less by accident, the intractable, ultra-individualist farming community has found itself committed to a system of co-operative organization which may well have to be modified, but is not likely ever to be abandoned.

Meanwhile manufacturing industry has developed on lines calculated to make a corresponding change in its organization both easier and better calculated to work successfully. Nothing has been more remarkable than the growth of corporate organization and sentiment in industry since the War. The old conception of industry as nothing but an aggregation of competing firms has been widely replaced by the sense of solidarity in the various industries, and embodied in vigorous trade associations of all kinds. However varied the range of their activities, these associations are everywhere based on the conception of a common trade interest or patriotism, of a desire to promote the success and efficiency of the industry as such, to encourage research and technical education, and to discourage unfair methods of competition. Protection has encouraged that feeling of solidarity as against outside competition and has, in its turn, justified the demand that protected industries



should, in the public interest, be efficiently organized. In the case of the Iron and Steel Trade, for instance, the protection given was definitely coupled by the Import Duties Advisory Committee with insistence upon a complete scheme of industrial organization. The importance of schemes of this sort lies not only in the domestic market. They are no less important for the purpose of international selling arrangements, and may play an even greater part in the future in supplementing inter-Imperial preferential arrangements by mutual co-operation on rationalized lines.

All these developments and tendencies have encouraged the belief that the time is ripe for a further definite advance in industrial corporate self-government, as well as for a co-ordination of the mass of *ad hoc* organizations of limited scope which at present crowd the field. Those who, like Mr. Harold Macmillan, have given most thought to the problem, are generally agreed that the best line of advance, following broadly the precedent of the Agricultural Marketing Acts, would be to pass an Enabling Act within the general framework of which industries should be given the opportunity of putting forward schemes of reorganization. These schemes, after due examination, provisional Ministerial approval, and subsequent endorsement by a sufficient majority of those concerned in the industry itself, might be made mandatory upon the whole industry by Parliament. When it comes to considering the character of the schemes, all kinds of difficult, but not necessarily insoluble, problems will present themselves.

Should the organization be one representing both Capital and Labour in a productive industry, and should wage and labour conditions come within its scope, or should these aspects of industrial organization be separately treated, at any rate to begin with? What is to be its basis? Is it to be concerned with a product or group of products, or with a process? Is it to follow up its product in the further stages of manufacture or even to the stage of distribution?<sup>1</sup>

<sup>1</sup> The latest plan on which the Italian Corporations are to be organized is that of the "productive cycle." The timber corporation, for instance, will include the whole cycle through which the tree in the forest is transformed into building timber, sleepers, furniture, etc.

What functions should come within its scope? There are certain obvious ones about which there can be little controversy, such as research or technical education, or that full collection and prompt dissemination of information about market conditions which can do almost as much as anything else to adjust production to demand. But should it have control of productive capacity, including the power to allocate output, to liquidate surplus plant, or to prohibit new plant? And if so, how is the efficient new producer to be allowed to secure his opportunity to compete? How far is it to be authorized to fix prices and, if so, to inquire into costings and insist upon efficient methods? What financial control is it to be allowed to acquire over its members or what power of imposing penalties to enforce its decisions? More generally, how is the desired efficiency of corporate organization and increased stability of planned production to be reconciled with the encouragement of individual efficiency, with the rights of the new and the small producer and with the interests of the consumer and of the community generally?

In the initial, and to some extent experimental stage for forming the first batch of organizations the government will have to rely for guidance upon the advice of some body of experienced men who, as an Industrial Advisory Committee, will have to fulfil a function not altogether unlike that of the Import Duties Advisory Committee in regard to tariffs. They will both have to scrutinize suggestions and themselves formulate modifications or alternatives. They will have to adjust schemes to each other and to the ultimate organization which it is their business all the time to keep in view. For unless the various elements in production, including agriculture, are ultimately adjusted in a properly balanced relation to each other, as well as to distribution and finance, and form part of a co-ordinated and yet flexible and organic scheme, the anarchy of large conflicting organizations will be far more disastrous than the anarchy of the existing smaller units.

This brings me to the one conclusion which stands out clearly in the whole matter. If we contemplate the introduction of self-government in productive industry, we must

contemplate its operation for productive industry as a whole, and, indeed, over the whole economic field. Government, aided by expert advice, can launch the scheme. But the continuous adjustment of the various self-governing parts to each other, the settlement of the problems of demarcation which must arise, the insistence upon the public against the sectional interest, can only be enforced by some self-governing organization in which all the various parts are themselves represented. In the language of the Indian controversy, provincial responsible self-government inevitably involves responsible self-government at the Centre. The only way of bringing the collective interest in efficiency as well as in stability to bear upon the narrower outlook, whether of Capital or of Labour, in particular industries or groups of industries, is by the discussion of their problems in a deliberative body in which, on every issue, all intimately understand the points raised and sympathize with the motives at work, but in which there is equally a solid majority who, on that particular issue, represent the interests of the consumer and of the general public.

I propose in a subsequent chapter to give some of the constitutional and parliamentary reasons why I believe the time is ripe for supplementing the existing Houses of Parliament by a third Chamber or House of Industry, in which the economic aspect of our national life can be correctly represented and effectively voiced. For my present purpose it is enough to say that the establishment of such a corporative or functional economic assembly is the necessary corollary of any attempt to secure stability on the basis of industrial self-government, and that we can only launch the experiment successfully, even in detail, if we keep that general conclusion in view from the outset. What is involved is nothing less than a far-reaching revolution in the whole structure of our national economic life. For this the ground has, no doubt, been well prepared by recent developments, and the new conception is essentially suited to our national instinct for self-government by discussion. But, as Signor Mussolini has discovered in attempting the creation of a similar organization from above—an organization which it has taken nearly a decade to evolve—the task is not one

which can be carried out in the twinkling of an eye. What is essential, if we are to put forward industrial self-government as a real alternative to bureaucratic Socialism, is to have so clear a vision of what we mean to achieve, so strong a conviction of its necessity, that we can carry the mass of our fellow-countrymen with us in a long-sustained effort.

## CHAPTER X

### MERRIE ENGLAND

THE preceding chapter has been devoted to emphasizing the need for an organic and, in some measure at any rate, planned structure for our national economic life. The greater part, indeed, of the present work has dealt with the inadequacy, or confessed failure, of the Liberal individualistic, or atomistic, conception of human relationship in every field. But it is no less inherent in the organic conception of human societies to keep in mind that they are composed of individual human beings, and that the quality of those individuals is as essential to the success of the organism as a whole as the latter is to the welfare and full development of the individuals. Personal quality, even more than national strength or prosperity, is the true aim and final test of political organization. It was the assertion of individual freedom, of human personality, against the cramping restrictions—economic, political, intellectual—of an outworn system, that gave to the great Liberal movement its tremendous initial vitality and profound moral value.

The experience of a century and half has proved that individualism, allowed to develop unchecked and unbalanced, unrelated to any higher organic structure, would end by destroying individuality itself. The whole course of its evolution has largely tended to the multiplication of human items rather than to the enriching of human personality. The industrial process has secreted an immense volume of human detritus, living in dingy monotony in vast urban aggregates, working long hours at dull repetitive tasks in industries in whose direction they have no share, enjoying the same mass pleasures, swayed by the same mass organs of information or propaganda in the occasional exercise of the functions of citizenship. Its fluctuations have only accentuated the sense of helpless irresponsibility among the victims of recurrent world crises.

Socialism accepts the general result as inevitable, but

aims at redressing its worst consequences by a mechanical scheme of state organization. The opportunities for individual development enjoyed by the privileged minority are to be sacrificed to the illusory hope of a somewhat higher average level of material comfort distributed on wholesale lines by a bureaucracy very imperfectly controlled by a party caucus. Bolshevism goes even further and glories not only in the levelling down of all distinctions but in the complete subordination, intellectual and moral, of the individual to the system. The wheel has turned full circle and the organization of the insect world has become the model for the spiritual descendants of the French Revolution.

Much of our so-called Social Reform, meanwhile, has tended to weaken and obliterate personality rather than to strengthen and enrich it. Its main aim has been to mitigate, by subvention from the public purse, the immediate material effects of the prevalent economic system upon its weaker or less fortunate members. In so far as it has secured for the whole community a certain minimum not only of well being, or at any rate of subsistence, but also of housing, of sanitation, of education, and of insurance against the main mischances of industrial life, it has laid a valuable foundation upon which the social reconstruction of the future can be based. But it has never faced the problem of reconstruction itself from the point of view of the building up of personality. On the contrary, its well-meant efforts have not only in some ways weakened the sense of responsibility, but have all been in the direction of accentuating the tendency towards the subordination of individuality to external control and mass organization. Until the last Unemployment Assistance Act secured for him the same consideration as the employee who had exhausted his insurance, practically nothing had ever been done for the small independent worker. To be an employee, not one's own man but another's, was the one indispensable condition for participation in benefits conferred out of the common purse. The time has come when we must choose definitely between a policy of distributive or dole Socialism, both intended and bound to pave the way to the Socialist state, and a bold and compre-

hensive policy of Social Reform aimed at building up and strengthening the element of individual personality in an organic national economic system.

If we decide for the latter, then we must approach our task on as many lines as the complex structure of human personality itself presents aspects. Personality, in one sense, is essentially a quality of the inner man. It is a matter of character and of brains, of inheritance, of education, of tradition, in other words of that difference of quality which distinguishes one real man from another. But it is also a matter of the relation of the individual to the community of which he is a member. Personality implies a position, a definite function and purpose in the community, a responsibility for their fulfilment, in other words a status. Liberalism broke up the old relationships, in order to liberate individuality. But by destroying status, based on quality and function, and substituting mere contract based on impersonal and purely quantitative money values, it undermined the foundation of personality itself.

Its deadliest error was the fundamental lie which treated labour as a commodity to be governed by the law of supply and demand, a thing that could be unwanted, and not as a problem of the full utilization of the capacities and personalities of citizens who, as such, are an end in themselves. Socialism aims, at any rate, at getting rid of the worst degradation of human status and personality, the condition of being unwanted, of no use to anyone, which is the cruellest part in the lot of the unemployed. But it can think of status only in the two forms of voter or state employee—a forty-millionth of an autocrat and the whole of a slave—and is prepared to forgo all the infinitely varied wealth of personality embodied in the many other more independent forms of human relationship.

There is yet another aspect of personality, that of the more immediate external framework and setting which the inner man builds up round himself, and which both embodies and influences his character and fortifies his individuality. That external framework includes our own body—that useful all round equipment which not only serves to house, warm, and move us about, but without which we

could not exist, or if we could, would not be what we are. But it does not stop with our body. It includes everything which belongs intimately and personally to ourselves, which is a part of our own particular lives, which expresses our own needs and our own character, which differentiates us from the rest of the world. Our clothes, our furniture, our books, the house in which we live, the instruments of our business or of our pleasures, are all part of ourselves and in turn make us what we are. A whole generation of young persons is growing up, over an ever wider social stratum, to whom life without some form of car or motor cycle—soon it may be aeroplane—of their own is almost as inconceivable as life without limbs. Not to have one would be a loss, not only of status and self-respect, but of the very sense of free personal life, in the truest sense an amputation.

Personality is Character. It is Status. It is Property. It is the Independence which springs from these. And it is Difference is respect of all these. There can be no scope for personality in a community where all are subject to the same mass education, all equal socially and politically, all forbidden to acquire individual property or transmit it to their offspring, any more than there can be in a community where all values are measured in money and nothing is not for sale. The independence must be limited by the need for social co-operation. The difference in character must be based on a common national foundation in moral and social standards. The difference in status must include some recognized function and definite rights for every citizen. The difference in property must allow for some minimum of personal ownership for all. But subject to these considerations the object of any true policy of Social Reform must be, not to fit our citizens into mechanical schemes of mass education, mass employment, or mass charity, but to make them independent "in mind, body, and estate"; not to level them down to common standards whether of thought, or of living, or of political power, but to encourage every distinction which makes for individuality, for progress, and for leadership.

One fundamental principle then of our policy must be the encouragement of private property. Not the accumula-



tion of wealth and money power over others in the hands of a few, but the possession by as many as possible of tangible belongings of their own. Of all such belongings none exercises more influence in the maintenance of an independent, self-contained type of personality than the ownership of land. The owner of land has, like the nation to which he belongs, a specific local status and a patriotism of his own which are invaluable elements in citizenship. It was a sound instinct which, before the Reform Act, gave the forty shilling freeholder a vote which mere wealth could not claim. To multiply, and to the necessary extent subdivide, but not to weaken or destroy land owning, should be a primary aim of Conservative Social Reform. Scarcely less important is the multiplication of the ownership of the houses in which our people live. Here everything that contributes to greater stability and security of national industry will naturally help a movement which already appeals with immense strength to the mass of our working population, however unpopular it may be with the theoretical Socialist who would have everyone a tenant of some politically governed public authority. The reduction of taxation on land and houses, and more particularly the substitution of some more equitable form of taxation for our present rating system, especially as it affects working-class houses, offer a wide field for constructive reform.

The question of housing, indeed, has other and at the moment more urgent aspects than the issue between ownership and tenancy. Nothing affects human personality, for the individual and even more for the family, so profoundly as the physical environment of the home. The awakening of the public conscience on this issue since the War, and the measures to which it has led, mark what is perhaps the greatest effort at social reconstruction since the Industrial Revolution. It is not within the scope of this work to deal in detail with the legislation passed by successive governments in recent years in order to improve housing conditions, or to discuss their efficiency. The broad fact remains that since the War something like 2,500,000 houses have been added to the 8,000,000 then in existence in England and Wales, and that something in the order of

another 1,000,000 houses will have to be provided in the next six or seven years if our improved standards of accommodation are to be met. The problem of slum conditions is being met by a slum clearance campaign, initiated by the present Government, under which it is estimated that some 1,250,000 people will be rehoused within five years. The wider problem of overcrowding at the centre of our great urban areas is being tackled in the far-reaching measure introduced by Sir Hilton Young, which starts from the new foundation of a national standard of accommodation, the infraction of which will be directly punishable by law.

That the provision of our essential requirements in housing should have to be dealt with so largely by the state and out of the public purse has been made inevitable by a variety of circumstances. The unfortunate effect of the land taxes in Mr. Lloyd George's famous 1909 Budget, the War, and the Rent Restriction Acts, all contributed to check the normal activities of private speculative enterprise in the building industry. The industry itself has been in many respects behindhand in its methods in the past, and progress in technical improvement has been hampered in many directions by the survival of arbitrary and obsolete local standards and conditions of construction, and by the failure to cut through the accumulation of out-of-date statutes. We really need a Consolidating Act to remove from the Statute Book the clutter of obsolete legislation, and substitute general national building standards and conditions, framed by a National Building Standards Authority, with elastic rules and wide powers of interpretation and modification, based on experiment and research.<sup>1</sup> The new Central Housing Advisory Committee, to be set up under the Hilton Young Bill, may, it is to be hoped, develop into such an authority. But when the ground has been cleared, and the emergency dealt with, our object should surely be to make the provision of a decent home, as of decent clothes or sufficient food, a matter which

<sup>1</sup> The immediate problem in the countryside, for instance, could probably be temporarily solved with the very minimum of cost and delay if it were made possible to import ready-made wooden houses from British Columbia.

a man should be able to pay for out of his own adequate wage.

The housing problem cannot, of course, be divorced from the economic. It is, after all, a by-product of our ever increasing industrialization and of the concentration of factories, warehouses, and shops in great centres. The growing habit of placing factories outside these centres, the multiplication of suburbs, the growth of garden cities, the possible decentralization of industrial work by electricity—all these things can afford their measure of relief to the situation. Even greater is the contribution that can be made by the revival of agriculture and the development of industries based upon it. The work of a body like the new Land Settlement Association may, in course of time, do not a little to assist in the transformation of the housing as well as of the unemployment problem.

The importance alike of proper housing and of the institution of property itself arises largely from the bearing of both of these issues upon the maintenance of family life. The family represents the natural primary organic grouping of society. In it personality is reinforced by the individuality and the continuity of the family group and by the relations, alike of status and of responsibility, which family life involves. The logic of Individualism carried to its ultimate conclusion makes the burdens and responsibilities both of marriage and of parenthood unnecessary consequences of the pleasures of mutual society between man and woman, and leads inevitably towards race suicide. The logic of Socialism would make maternity a state-paid function, and institutionalize its citizens from birth onwards. The tendency in both these directions is visible enough. The end would be a state of affairs such as Mr. Aldous Huxley has described in his *Brave New World*. For those of us who believe in the maintenance both of national strength and of human personality that is an intolerable conclusion. The family, for us, remains the indispensable setting of the individual life and the no less indispensable foundation of the national life.

This does not mean that we should adopt a merely negative attitude towards the demand for a reform of our divorce laws, or towards the inevitable spread of medical

knowledge on the subject of birth control. It does mean that we should keep the positive encouragement of family life in the forefront of all our social and economic policy. We have already gone far from the pure contractual *laissez-faire* outlook in our national insurance system which definitely provides family allowances for the insured unemployed, and payments to widows and orphans from contributions levied on all workers, as well as in our system for the assistance of the uninsured unemployed. But we have never yet faced the possibility of departing from it in relation to the normal, as distinct from the abnormal, maintenance of the worker and his family, and of making provision for the worker's family an essential part of his ordinary remuneration.

In this connexion our French neighbours have embarked upon an experiment which certainly deserves the closest study. Shortly after the War employers in a number of leading industries voluntarily established a system of *allocations familiales*, or extra wages paid in proportion to the number of dependent children. To prevent the unfair incidence of such an arrangement upon those who employed more married men, the money required was raised by a levy on all the men employed, and paid into a common pool managed by the whole industry. The system was at first violently attacked by the Socialists as a scheme for lowering the basic level of wages. But it proved so successful that in 1933 a measure, initiated by the Socialist Party, was passed by which the system was, in principle, made applicable to the whole of industry, and actually enforced, as from October 1, 1933, in the mining, chemical, textile, and metallurgical industries. The allowances are on a scale rising with the number of children and are, by French wage standards, substantial. They are fixed at a minimum of 30 francs a month (say 8s.) for one child, 70 francs a month for two children, 120 francs for three, 200 for four, and an additional 80 francs for each further child.

The idea, though it has found some advocates in this country, has so far been scouted by our Trade Unions, who, like their French colleagues at the outset, have suspected the cloven hoof of the wage-cutting capitalist. are certainly not ripe here for its general legislative

enforcement. But its adoption, in the first instance on a voluntary basis and on an experimental scale, might well be encouraged by a state contribution to the funds of any pool organized by an industry for that purpose, and by the inclusion of power to frame such schemes in any general Enabling Bill for industrial self-government. It would be more in keeping, too, with British ways that the workers themselves should contribute to the pool, even under compulsion, rather than that any question of altering basic wage rates should be raised. Nor ought it to be impossible to secure agreement on such lines once we get back to a period of rising wages and reduced insurance contributions.

If we decide that our wage arrangements are no longer to be governed solely by supply and demand, and that the individual employer's conception of labour as a commodity will have to be subordinated to the national interest in the worker as citizen and husband or wife, then we may also have to reconsider our present attitude towards the payment of women workers. There is no evidence that the present volume of male unemployment is to any serious extent due to the rapidly increasing displacement of male by female labour, except, perhaps, in clerical work and some of the lighter industries. But unless it can be claimed that the employment of women is actually more desirable socially than that of men, it cannot be to the public interest that the employment of women, as against that of men, should be encouraged by the payment of lower remuneration for the same standard of efficiency. In the textile industries, where piece rates are identical for both, and other wages approximate closely, the percentage of women workers, though over 60 per cent, has not increased markedly over the last forty years, and the presumption is that women hold their place on merits. But in some industries and professions their rapid increase would seem to have been mainly due to their cheapness. There is no case for any drastic interference with existing arrangements. But it would be consonant with public policy that Trade Unions and industrial organizations generally should aim at greater equality, and that public authorities should give a lead in this direction.

On the taxation side we have recognized the principle of family responsibility in our income tax legislation with its allowances. These were reduced in 1931, and only partially restored in the last budget. It is to be hoped that they may before long be substantially increased. A definitely anti-social element in our present fiscal system is the joint assessment, for income tax and surtax purposes, of the income of husbands and wives, which is a direct discouragement of marriage and of children in the class where both should be most encouraged, alike from the point of view of eugenics and of the social redistribution of wealth. Our enormously heavy death duties, too, need reconsideration. That the same families should continue to live in the same homes and administer the same estates is an element of no small value in the stability and quality of the life of the countryside. It should not be made impossible, or unduly difficult, as it is at present, by the action of the state.

Our efforts in these directions will be concerned primarily with the encouragement of family life, as such, as an essential part of the structure of the nation. But they may also have to be considered from the purely quantitative view of the maintenance of our population in the face of social and economic factors leading to a dangerous decline in the national birth-rate. While our main object is the quality, and not the mere numbers of our people, there are limits below which the standard of life itself would suffer from the shrinkage of our home market and from the increasing burden of individual taxation required to sustain our national and Imperial responsibilities. Nor can we, of all nations, ignore the importance to the healthy growth, political as well as economic, of the Empire of a constant stream of migration to the Dominions. There is no reason for the unduly alarmist deductions which are sometimes drawn from the supposed indefinite continuance of the present declining rate of increase. Population, in the long run, is governed mainly by economic opportunities. If a policy of Empire development creates steadily increasing openings for employment, both for those who stay at home, and for those who are prepared to go overseas, then, so

long as our general social and economic system does not directly discourage family life, the marriage- and birth-rate will once more respond naturally to the prospects offered to the new generation. But there is always the danger of a serious gap occurring at the moment when we may most need fresh blood, both at home and in the Empire, and calling for bold special measures to stimulate our national birth-rate<sup>1</sup>. There is, at any rate, no time to lose in getting rid of the factors which are tending most seriously to depress and devitalize family life.

From the family we naturally turn to the school. Here, too, we come to a field where there is an urgent need for a constructive policy on lines aimed both at the development of individual personality and at the fitting of the individual career to the national need. Our existing system has served its purpose in providing a national educational minimum. But it still carries with it too much of its Liberal individualist origins in the underlying conception of an education mainly devised to enable the working man's son to become, what only a small percentage can possibly become, a clerk or professional man. On the other hand, it has also become increasingly dominated by the Socialist conception that higher education and a prolonged schooling are things that should as of right be given all round to the sons of poor men, because rich men's sons have been in the habit of enjoying them, and by the natural instinct of a profession which has become a great Civil Service to think along existing lines, and to magnify its own scope by the progressive extension of the full-time school course.

There may be a good case, especially since the division in the school period introduced by the Hadow system, for an extension to fifteen, when, in a few years' time, the reduction in the school population will enable that to be done without wasting money on a great mass of unnecessary buildings. But for the moment the urgent thing is not the extension of whole-time schooling, but the effective enforcement of the system of part-time day continuation schooling

<sup>1</sup> According to Signor Mussolini the German birth-rate has risen from 14.7 per 1,000 to 17.7 per 1,000 in the two years since Herr Hitler came into power—clear proof of what can be done by state encouragement.

contemplated under Mr. Fisher's Education Act of 1921, which, owing to the short-sightedness of employers and of local authorities, has largely remained a dead letter. There is no case, whether the general school course stops at fourteen or fifteen, for allowing education to come to a dead stop at that age, with the consequence that even the little that has been acquired by then is forgotten and wasted. On the other hand, there is much evidence to suggest that, except for a comparatively small minority—and this applies in all classes of society—there comes a point where mere schooling, as such, ceases to stimulate interest. The craving is all for practical work. But the habit of study is still there and can be quickened, often revealing wholly unsuspected intellectual ability, once it can be linked with that practical work and realized as bearing upon it. For the adolescent of both sexes there is no period of life so educative as the first year or two as a worker and wage-earner. To make it a true university of life, by combining the first contact with the responsibilities and opportunities of occupational work, with a continuation both of suitable study and of healthy physical training, is a worthy ideal from the point of view of the individual. But it is no less desirable from the point of view of industry. The more industry develops the greater, in the long run, will be the demand for intelligence, and the more important will it be for our industries to secure a supply of workers with trained and adaptable minds.

The arguments for a bold step forward in enforcing the day continuation school provisions of the Fisher Act would be strong at any time. They are certainly not diminished by a consideration of the present unemployment problem. Of all the schemes proposed for relieving that situation by reducing the pressure upon the labour market, this seems by far the most practical and immediately applicable, as well as the one offering to industry the greatest future return for any present inconvenience in reorganizing factory arrangements.<sup>1</sup> There are other incidental, but far from

<sup>1</sup> This is peculiarly true at the present moment when the number of juveniles of 14-18 years of age is rapidly rising. There will be 300,000 more boys and girls on the labour market by the end of 1935 than in 1933, and 500,000 more by the end of 1937. After 1937 there will be a shrinkage, amounting to nearly



unimportant, advantages which the new conception of education—for it is nothing less—would bring with it. It would have its reaction upon all post-primary and secondary education, which is still far too much governed by the notion that its aim and object is the passing of an examination for entrance to a university and not a preparation for life and for citizenship. It would make for variety and self-government in education. The new schools would be largely started by industry itself, with state assistance and subject to some measure of state supervision, but outside the ordinary scheme of publicly provided education. They would conform to the general English principle that all higher education should be self-governed and free from the direct interference of any political authority. When we see what is happening to education in Russia, in Germany, or in Italy, or what some of our Socialists would like to do in suppressing all teaching of patriotism in our own council schools, we can only be strengthened in our determination to maintain that principle as an essential bulwark of our intellectual liberties.

We must next consider the conditions of actual working life. Here the first essential is reasonable security. The new organic self-governing structure by which that security can be aimed at, as well as the general national and Imperial economic framework within which it is to develop, have been dealt with in the last chapter. But there is a personal aspect of security which has never received the consideration which it deserves. That is the length of the working man's contract of labour. Why should the lives of millions of our citizens be carried on subject to dismissal at the end of a week, or even of a day, for no other reason than that their employers may not want to keep them on? The practice naturally suited the old-time capitalist. It meant that labour was a commodity which was always available, in wholesale or retail quantities, as and when required, for which it was unnecessary to make any reasoned provision, for whose storage, upkeep or possible depreciation there was no

500,000 by 1945. But by 1937 the reorganization of juvenile labour to fit in with continued mental and physical education should be completed, and the problem of smaller numbers can then be dealt with on its merits.

responsibility. In the old days of expansion and varied opportunities it may have had some attraction for the workman himself. The Trade Unions have grown up accustomed to it, and are inclined to think that it gives them a more effective weapon for strike purposes. But it is clearly contrary to the permanent interests of the working class. What it means is that the responsibility for so organizing his work as to secure the greatest continuity of output and steadiness of employment is shirked by the employer, and the working man left to bear the consequence.

To raise the working man from his present position of industrial prostitution to a higher status based on a more permanent tenure should clearly be one of the chief objects of a constructive social policy. Some progress, indeed, has already been made in that direction. Those enlightened employers, Imperial Chemical Industries, for instance, admit every worker, male or female, after five years' service to a "staff grade." In that grade the rate of wages is guaranteed for the year, a month's notice is given of suspension or discharge, and the wage paid for six months in the case of sickness. Nearly 6,000 out of some 50,000 of their workers are on that grade already. There is no reason why that example should not be followed, and the scale of its application greatly enlarged, by industry as a whole. The matter is, in the main, one for the leaders of industry, both employers and Trade Unionists, to develop on their own initiative. It is, indeed, the kind of reform that is likely to be facilitated and promoted by the greater stabilization and better mutual understanding which is to be expected from the growth of industrial self-government. But there is no reason why the state should not give direct encouragement where it can. The Committee which recently investigated the problem of the application of unemployment insurance to agricultural labour has recommended that employers who hire their farms hands by six months or a year at a time should pay a reduced insurance contribution. I would apply the principle to industry, and go so far as to abolish the employers' contribution altogether for the "staff grade," thus both encouraging an important reform and getting rid of what is, in principle, an unsound form of tax upon production.

There is a close psychological connexion between this question of the term of the wage contract and the question of hours of work and of leisure. The employer who thinks of his employees in terms of the week tends also to think more of extracting the most from them each week than of promoting their maximum efficiency over long periods. The employee, on the other hand, who thinks in terms of the week tends to demand shorter hours more from the point of view of improving his economic bargain, i.e. giving less work for the same pay, than from that of how to secure for himself the most profitable and enjoyable amount of leisure. It is only those who think in longer terms who can really give a fair answer to the question whether the need of our workers is, in the main, for shorter daily hours or for more holidays.

To reduce daily hours to a figure consistent with health and with the maintenance of any sort of home life has, no doubt, been an object for which Labour has rightly fought in the past. There may still be room for some further reduction. But there is much to be said, in the planning of the full working day, for the old threefold division into "eight hours' work, eight hours' play, and eight hours' sleep." It is the longer periods of leisure out of which the worker, and his family, can get the most value. Messrs. Boots have shown that, in certain industries at any rate, the five days week can be applied without loss of efficiency and with great advantage to the worker. But more real holidays—full pay of course—and at shorter intervals through the year, would seem to offer even greater opportunities for mental and physical relaxation, and the planning of them should involve no insuperable difficulties. With men engaged on long terms it might be possible, too, as Lord Melchett has suggested, to pool unemployment and leisure by the arrangement, in slack times, of holidays partly devoted to physical and technical training. Longer holidays might also afford opportunities for citizen service in the Territorial Army and other voluntary forces of which, given reasonable encouragement, our young men will be only too ready to avail themselves.

One way and another we should aim at a distribution of

work and leisure as flexible as possible and adapted to the needs of each industry and to the ways of our own people. The idea that uniform hours can be laid down for all occupations, industrial and agricultural, is contrary to common sense. Even more impractical is the notion that working hours can be fixed by international agreement. The customs of different nations, their temperament at their work, their interpretation of any set of rules laid down, will always be so different as to make any agreement a farce. The whole movement, indeed, for the international regulation of working hours is out of date. It springs from a mentality which still thinks in terms of free imports and of free competition for exports in a "world market." It is really irrelevant to a world in which national standards, whether of hours or wages, will be maintained by fiscal policy, and in which exports will, in the main, be confined to markets sheltered by preferential treaties.

An increase of leisure for our workers, rightly distributed, is an object well worth working for, and one which the increased efficiency of modern production places within our reach. To urge this does not imply assent to the essentially false doctrine that modern efficiency is the cause of unemployment, and that only by a drastic reduction of hours can ever increasing unemployment be prevented. There is no evidence that human demands do not grow at least as fast as the means of satisfying them. So long as men—and their wives—want more than they have, or more than their neighbours have, of enjoyment, comfort, or ostentation in their lives, so long will they prefer work to leisure. No woman can ever have enough for her home and her children. She can always have more than enough of a husband hanging about the place in working hours. When every working-class family has got all the wireless and television sets, all the cars and aeroplanes, all the house room, and all the holiday travel it can conceivably think of, we can begin to discuss the reduction of hours from the point of view of economic necessity as well as of social advantage. At a moment when the average working man's wage is insufficient to pay for the economic rent of our present minimum standard of health and decency in housing

we can safely leave the theoretical problem out of our picture.

For all that it is a man's working hours and not his leisure that are, or should be, his real life. The conception of a life in which the greater part is devoted to some uninteresting and inherently distasteful form of drudgery in order to secure the means for a real life in between, or afterwards, is a degrading one—as degrading for the would-be millionaire as for the labourer. The old craftsman had the joy of his skill and, in spite of mechanization, there is still plenty of room for skill and personality in work. But there is also a natural human need for a direct interest in the result of one's work which has been far too much neglected both by employers and by Trade Unions. Piece work gives an element of it, and is a good thing where it can be sheltered by fair collective agreements from exploitation by shortsighted employers. Team piece work is often preferable because it substitutes a collective for a purely individual motive and sets a fairer average standard of effort.

The true ideal, no doubt, is that embodied in the conception of profit sharing, or rather of co-partnership. The most serious cause not only of industrial misunderstanding but of underlying unhappiness is the workman's feeling, not so much that he is exploited by his employers, but that he is the helpless victim of their lack of foresight and competence, of their inability to organize their own and his security. As Lord Milner has pointed out in his *Questions of the Hour*, "He has to pay the piper but has never had the fun of calling the tune." And, indeed, to quote him again, "It is unreasonable to expect the working man, now that he has achieved complete political equality, to acquiesce for ever in a position of complete industrial dependence." A direct interest in profits and, even more, an understanding of the employers' problems, and a share in the moral responsibility for solving them, would have a value out of all proportion to any mere increase of the workers' remuneration or improvement in their efficiency.

So far the Co-partnership Movement, though very successful in a few essentially stable industries, like the Gas Industry, has made comparatively little headway.

Employers have been afraid of giving away something, whether in money or in information, for no real return. The Trade Unions have suspected schemes which by attaching men to particular firms might weaken their own authority and impair the one effective weapon behind their efforts for the general improvement of wages and conditions, the weapon of the strike. The answer is once again the Indian answer that you must give responsibility at the Centre as well as in the Provinces. You must bring in the Trade Unions, as such, into a self-governing industrial structure. With their own position assured as responsible partners in that structure, they would naturally welcome, rather than oppose, all schemes within that general framework which would improve the material prospects, increase the influence, and raise the status of their members. "There is," to quote Lord Milner once more, "nothing sacrosanct in the present divorce of the great body of producers from the ownership and control of the instruments of production . . . nothing sacred or final about the joint stock company system." There is a vista of great and fruitful developments in the organization of industry before us, once Trade Unionism has bridged the gap which separates its present merely representative from its future responsible status in industry.

In so far as the great bulk of industrial production will continue to be carried on under the factory system, our endeavour must be to secure for those who enter that system a greater security and a higher status than they enjoy at present. But there is, I believe, room, and, it may be, increasing room alongside the factory system, or the multiple store, for the independent small man. The small manufacturer producing some speciality or supplying a local need,<sup>1</sup> the small repair works, the little shop, the man with the barrow, the jobbing carpenter, painter, or gardener—they all have an important economic function in filling the interstices between the large organizations. But they have an even greater social value as an element of personal independence well worth encouraging and promoting.

<sup>1</sup> At present 76 per cent of the factories in this country employ 25 persons or less, and account between them for 13 per cent of all employees.

So far our Social Reform measures have consistently ignored the small man. State help has all been conditional on the status of employee. The small man should be brought more effectively into our schemes of insurance. The maximum scale of earnings for eligibility to insurance should be raised to cover him. As his real employer is the public he should have, not only the ordinary state contribution, but also the employer's contribution furnished for him from public sources, possibly by the county or municipality. He should be as effectively insured against accident incurred in the course of his work as the employee. Now that electricity makes it possible to decentralize many industrial processes there is no reason why men and women who prefer to work in their own workshops attached to their own homes should not be allowed and, indeed, encouraged to do so. Real artistic work is often best done under such conditions, as the French silk industry has discovered. To encourage this may require, not a lowering of our standards or working conditions, but a recasting of much legislation framed only from the factory point of view, or aimed against the insanitary homework conditions of an earlier generation.

Behind the reforms aimed at creating positive economic security and raising the workers' status lie the purely defensive measures to mitigate the consequences of economic or personal misfortune. We have built up in the last generation a remarkable system of compensation or insurance against industrial accident, ill health, unemployment, old age, widowhood, and orphanhood. Whatever its incidental defects, that system has provided an element of material security which has done much to tide us through the difficult post-War years. It has maintained the physical health of our people, and especially of our children, in the face of unemployment on an unparalleled scale. Nothing can be more significant than the fact that the percentage of underfed children in London was 15·8 in 1913, a year of exceptional prosperity, and 4·8 in 1930 with three or four times as much unemployment, or that the percentage of children inadequately clothed or shod fell from 2·3 in 1921 to 0·9 in 1930. The Chief Medical Officer of the Ministry of Health summed up the national situation in 1932 by

saying that "though specially sought for, evidence of malnutrition there is none . . . there is at present no available medical evidence of any general increase of physical impairment . . . as the result of the economic depression." Not less important, the fact that the insurance has been, even if only in part, contributory, has done much to maintain the unemployed or sick worker's self-respect.

From that point of view, too, it has been essentially right that the present Unemployment Insurance Act has not only clearly separated unemployment insurance from unemployment assistance, but has also clearly distinguished the latter, the need for which has arisen from causes outside the workers' own control, from the general relief of poverty resulting, in the main, from physical, mental, or moral infirmity. Unemployment Insurance, indeed, has been effectively recast, and it is to be hoped, whatever changes may be introduced in the working of the Unemployment Assistance Board as the result of a somewhat unfortunate start, they will not affect the main principles of an organization which includes in its purview, not merely the financial relief of those who have fallen out of insurance, but also their training and reconditioning. Its chief value, indeed, should be looked for in this latter direction. For with the return of prosperity and a better organization of industry generally, it should be the exception that any large number of workers should ever fall out of insurance in industry generally. The main task of the Board will then be to deal with the circumstances of particular industries which may shrink or be displaced, and whose workers will need to be readapted to other pursuits.

Our system of health insurance, on the other hand, calls for a complete overhaul. It is at present a curious jumble of insurance against the financial consequences of ill health, and of a rudimentary national health service based on the panel doctor. There should be a much clearer separation between sickness insurance for the bread-winner and a national health service. The former should continue to be administered by the Approved Societies and should be a money payment out of which the recipient should be free to make his own medical arrangements if he wishes. The



latter should be organized on public lines as a real preventive health service, covering all members of the family, based on a complete network of local treatment centres or clinics, linked on the one hand to the hospitals, and, on the other, kept in touch with the home by regular routine visits for advice or inspection. In the reduction of maternal and infantile mortality, in the elimination of tuberculosis and venereal disease, as well as in the teaching of positive hygiene in household arrangements, in cooking, eating, drinking, and the taking of rational exercise, there is still a wonderful scope for improvement before we attain our goal—a physically A1 nation.

We have had to make our insurance system universal and compulsory in order to cover the whole ground on at any rate a minimum basis of security. But insurance, if compulsory, is, at bottom, something of a pretence. It may help to sustain self-respect, but it gives no real encouragement to foresight and thrift. Voluntary insurance is, after all, a better thing in itself and more worthy of assistance from the public purse. There should be room, once the present economic crisis, with its immense strain on the public purse, has passed away, to utilize some of the saving on the existing insurance schemes in order to build up supplementary schemes based on voluntary lines.

A typical scheme of this sort is the late Sir John Pilster's scheme for an annuity at the age of 55. Under this scheme every boy or girl at 15 is provided with a Pension Book, which includes a Government Bond of the value of £40 available at the age of 55. To this they can add £10 for an educational certificate, £20 for a certificate for technical proficiency in some handicraft, including the craft of housewife, another £20 for a certificate of assiduity at their educational or occupational work between 15 and 20, another £10 for each year of training in the Territorial Force. Any savings they can add of their own, however irregularly paid in, are credited at compound interest, and matched as to capital, though not interest, by a state contribution. The scheme is primarily to provide an annuity up to £44 a year at the age of 55, and £88 a year after 65. But it could be varied to provide for the alternative of earlier breakdown

in health, for life insurance, or any other object desirable on national grounds. So, too, the prizes might be further varied, as, for instance, by an allowance of £20 to a woman in respect of each child who attains the age of five. Sir John Pilter estimated that the finance of his scheme would be covered by borrowing and setting aside £15,000,000 a year from its initiation, at an actual cost to the budget rising from, say, £500,000 in the first year to £20,000,000 in the fortieth, and nearly double that amount afterwards.

What is important is that both our original insurance schemes, and any supplementary ones which may follow, should be so dovetailed into other schemes existing in the Dominions, or make such provision for following up our pensioners overseas, or for the allowance of surrender values, as to constitute no obstacle to migration within the Empire. At present a working man knows that if he is run over by a lorry in the streets of Southampton his wife and children are insured. If the same thing happens to him looking for work in Toronto they get nothing, even if he has contributed for their insurance for many years past. The problem is not easy to solve. But it must be solved, for a world-wide Empire and a sessile population in these islands go ill together.

State-aided insurance is not the only form of thrift. According to figures quoted by Lord Mottistone, the Chairman of the National Savings Committee, the total standing to the credit of small investors in the Post Office Savings Bank, the Trustee Savings Bank, and in the National Savings Movement amounted in July 1934 to £1,234,000,000, representing an increase, in spite of the great depression, of £65,000,000 since July 1931. If to this is added the money standing to the credit of the small investor in other thrift organizations such as building societies, industrial and provident societies, industrial assurance societies, friendly societies, and Trade Unions, and the accumulated funds of the National Health Insurance scheme, we get a grand total of over £2,500,000,000, or some £56 per head of the population, a remarkable testimony to the foresight and independence of our people, and a steadying factor which may yet prove of incalculable value in our political life.

If the Englishman is thrifty he is also a gambler. Gambling in excess is a ruinous vice, and in certain directions there is already far too much of it to-day. But the Puritan desire to suppress any and every form of it, except financial speculation, as fundamentally immoral, and especially bad for the working man, goes much too far. It ignores an irrepressible instinct in human, and particularly in English human, nature. The element of chance, of securing something rather more or less than the average return for one's effort, adds zest to every form of sport. What would fishing be if equal-sized fish could be reckoned upon to take the hook at half-hourly intervals? Moreover, in a world in which the cards are anyhow dealt out every unevenly at birth, the temptation to risk a bit even of the little one has got in order to correct one's luck is neither unnatural nor wholly reprehensible. All the world is sympathetic to the little man who draws a winner in a sweepstake, even if it shakes its head over the sweepstake as an institution. We shall never clear up the hopeless muddle of our betting laws until we rely more, on the one hand, upon the positive elements of thrift and foresight in our people, and less upon mere repression, and until we are prepared, on the other, to recognize the existence of the sporting instinct and give it a better outlet than it enjoys at present.

Could anything be more stupid than most of the betting that goes on, by men who have hardly ever seen a race-horse, with all the odds against them? Why should not the sporting instinct be deflected into more intelligent channels? I see no moral reason why the investor in the Savings Banks should not be allowed, as an alternative, to have a quarter per cent of his interest allocated to a Thrift Lottery. The man who can save fifty pounds out of his wages over a period of years is the last person to squander it all if he should suddenly find that he has doubled his savings. A sporting interest attached to the voluntary supplementary insurances which have been suggested above would certainly increase their popularity, and would not impair their fundamental purpose. I have heard of a mineowner who, finding a profit-sharing scheme yield too little to excite either gratitude or interest in his men, tried the experiment of giving the same

amount in a lump sum quarterly to be divided into prizes, ranging from £100 downwards, to be drawn for by the men themselves. The result was an unqualified success. Every quarter's draw was a great social event. No one grudged the winners their good fortune. Everyone was interested in the fortunes of the mine and eager to increase the next quarter's prize fund. The scheme was discontinued because it was illegal. I am not sure whether it would not be legal under the provision sanctioning "private lotteries" in the recent Betting and Lotteries Act. If so, I hope the experiment may be repeated.

The same applies to much of our legislation with regard to drink. There the United States have done the world a service in showing what results can flow from the folly of attempting to suppress instead of moderating and guiding a strong human instinct. If men are determined to enjoy some modicum of alcoholic refreshment to cheer themselves, or to provide an excuse for social intercourse, they should not be driven to do so under conditions which make their pleasure sordid and lower their self-respect. On the contrary, everything should be encouraged that would make their consumption of alcohol only a minor and unessential element in their satisfaction—other refreshments, music, pleasant and well-ventilated rooms, and, if they wish it, the presence of their families. To forbid children entering a public-house is one way of dealing with the problem. A better is to see to it that public-houses should be places where, as on the Continent, the working man knows that his children will see nothing that they should not see, either in his own conduct or in anyone else's. There has been an immense advance in sobriety and self-respect among our people in the last fifty years for which limited hours and high prices are only in part responsible. I believe a change in our official attitude from mere repression to the positive encouragement of improved conditions would meet with willing and loyal co-operation from the Licensed Trade as a whole, and would strengthen rather than weaken true temperance among our people.

To guide and elevate the pleasures of the people, to enrich their lives as well as to increase their livelihood,

is surely not the least of the duties of the state. An immense step forward was taken when the incalculably powerful influence of broadcasting was entrusted to an independent body, concerned with leading as well as meeting the public taste, instead of being left to mere commercial exploitation and vulgarization. Television is now, happily, to be entrusted to the same authority. But why should there not also be some public provision, not by monopoly, but by subsidy, for the production of the best films, the best plays, the best operas? Is there no room for the setting of standards in these fields? Or is the Puritan reprobation of the official countenancing of all our pleasures to continue to set our standards by the lowest common denominator, the immediate box-office returns? Our people enjoy the best when they can get it, and independent enterprise in these fields is not going to suffer by improvement in the public taste, any more than it has suffered in France or in other countries that have recognized the Arts. Signor Mussolini has done a remarkable work in encouraging the organization of rational pleasure as part of the life of industry. There is a wonderful opportunity before any government here that has the originality and courage to regard the creation of a Merrie England as a major object of policy.

Even more important, perhaps, is the preservation and enhancement of the outward setting in which our people live. The beauty of England is the personal inheritance of every Englishman and a part of his very self. We have disfigured it for a century with "dark Satanic mills," with festering slums and with dingy rows of brick boxes to house the more respectable. We are now disfiguring it faster than ever with ribbon development, hiding all glimpse of its beauty behind a network of endlessly continuous streets, with results incidentally uneconomical as well as destructive of human life. When it is almost too late, we are introducing legislation to check the mischief brought about by want of thought and by the stupid parsimony of the Treasury in dealing with such local authorities as have put forward more progressive suggestions. It is no easy matter to reconcile an effective policy of Town and Country Planning with individual liberty, and, above all, with expedition in

the giving of official decisions. But the effort is well worth making. There is much, too, that could be done with the voluntary co-operation of societies like the National Playing Fields Association and the Society for the Preservation of Rural England, as well as of public spirited landowners, by a comparatively small expenditure of public money. The initiation at the beginning of this year of a School of Planning and Research for National Development for architects, engineers, surveyors, estate managers, etc., may do much to create a more enlightened professional and ultimately public opinion. It is the educated public opinion in these matters that is the thing that really counts and that it is the business of public men to foster.

It is not enough that England's beauty should be preserved. It matters no less that it should be made accessible to the English people. The maintenance of private property, especially in land, should be a cardinal point in a Conservative policy. Nor should that policy, while aiming at the maximum extension of small private ownership, discourage the retention of beautiful parks and splendid country mansions. But the enjoyment of their beauty should—as, indeed, it largely is—be widely accessible, and landowners who open their properties to the public should be encouraged by adequate concessions in respect of rates and taxes. Over and above that the time has come when the idea of National Parks, where our people on their holidays can walk and climb, bathe and camp, should be taken up boldly. There is room for a dozen major parks in England and Wales alone, as well as for many more smaller parks in the neighbourhood of our great cities, while in Scotland there are vast areas of beautiful mountain country which could be acquired for the public, without impairing the value of what would still be left in private hands as deer forest. At this moment, too, the provision, from loan funds, of course, of the necessary money for the purchase of the land, and the work in connexion with the equipment of camp sites, hostels, and swimming pools, would make a useful contribution to economic recovery.

A beauty-loving Merrie England, well housed, healthy in body and mind, with an economic life based both on

sturdy individual independence and on free mutual co-operation, full of diversity, yet united in a deep common patriotism—a microcosm of the unity in diversity and freedom of the Commonwealth of which it is a part—such an ideal is not an unworthy one for statesmanship to set before itself. Nor need we be afraid of submitting it to a people who have always responded to an ideal, and who will only be swayed by the abstract jargon of theorists if no concrete, practical vision is held up before their eyes. Only we must not shrink from the logic of our convictions, of our faith in quality, in personality, in the supreme value of the individual man and woman. We must have the courage to act upon that faith and act boldly. The tide of wordy doctrine, sordid in its appeal and mechanical in its methods, destructive of freedom as of national and individual quality, is rising fast. There is no time to lose.

## CHAPTER XI

### THE MACHINERY OF GOVERNMENT

IN the preceding chapters I have endeavoured to suggest at any rate the outlines of a coherent national and Imperial policy. I have said nothing about the instrument for translating such a policy—or indeed any policy—into action, so far at any rate as the government of this country is concerned. Yet the first essential in dealing with policy is that we should have an instrument capable of planning and enforcing policy, a governmental machine that can govern, a political executive that can lead. It is that which, more than anything else, is lacking to-day, and its absence involves the most immediate danger to the whole structure of our constitutional freedom. The nation wishes to feel that it is being led, and led by men who know where they stand and where they mean to go. It finds, instead, Ministers speaking with very different voices, and carrying out, through their several departments, widely divergent and even conflicting policies. Above all, it senses an atmosphere of indecision, of vagueness of purpose, of procrastination about the whole conduct of affairs which fills it with profound misgivings. It recognizes that much good work has been done. But it feels that much of it might have been done more quickly and more decisively, and its eyes are fixed even more on the magnitude and urgency of the problems still left unsolved.

There are still nearly 2,000,000 unemployed. Large areas in Wales and the North are derelict and in despair. Cotton, shipping, and shipbuilding are menaced with a relentless competition which can only end in their being driven to the wall unless far more vigorous measures are taken than any as yet contemplated. Agriculture has been helped in many ways. But its mainstay, the live stock industry, is still in a desperate plight. The problem of defence is beginning to loom before us with an insistence which can no longer be evaded. On all these issues the public ask, not for



immediate solutions—it knows better than that—but for a definite policy. It was in the hope of such definite and strong leadership that, weary of the futility of purely party politics, it gave so overwhelming a “doctor’s mandate” to the present National Government in 1931. The danger is that the present mood of disillusionment and misgiving may be allowed, for lack of clearer guidance and greater energy, to degenerate into a loss of faith in constitutional methods of government as such. On this issue it is not the National Government alone that is on trial, but the whole constitutional machinery of this country. Failure to find a policy which can cope with our problems, and which can command the confidence of the public, may easily spell the end of parliamentary government here as it has in other countries. For the success next year of a Socialist Party inspired by the constitutional ideals of Sir Stafford Cripps and Major Attlee would create a situation whose reactions might well be incalculable.

And yet it is not parliamentary government, or even democracy, as such, that has broken down. There is room, no doubt, and need for far-reaching reforms both of the structure of Parliament and of its representative basis. But the first and most urgent need is for the restoration of the effectiveness of government, and of public confidence in its leadership. And, indeed, how can we reconstitute our parliamentary system until we have a government that is capable of devising a clearly conceived plan of reform, and has the determination to carry it through?

The essential weakness of the situation to-day may be, in part at least, personal. But it is certainly not due to lack of individual ability in the ranks of the Cabinet. Nor is it mainly due, to-day, to the original differences of party outlook and tradition inevitable in a coalition, though these undoubtedly played their part in the piecemeal and inconsequent handling of the tariff problem in the first few months, and in the hesitation to agree to duties on meat which impaired what might have been a greater success at Ottawa, and has paralysed our agricultural policy ever since. The elimination of the Free Trade diehards, and three years and more of work done together, should have gone far to cure

that source of weakness. What is at fault is not so much the men as the machine which they have to work. In days when the pressure of departmental work was only a fraction of what it is to-day, and when national and international issues were simpler and less insistent, it was possible for Ministers, meeting at fairly frequent intervals round the Cabinet table, to find time both to adjust departmental differences, and to arrive at such a measure of common policy as the situation demanded. Those days are gone. The nineteenth-century Cabinet system is incapable of handling the complex and urgent problems of the twentieth century.

It is my profound conviction, based on a good many years of practical experience, that a Cabinet consisting of a score of overworked departmental Ministers is quite incapable of either thinking out a definite policy, or of securing its effective and consistent execution. It is a commonplace of scientific organization, long since recognized in all the fighting services, that where the same body is responsible for the day-by-day conduct of administration as well as for the planning of policy for the future, the latter function is bound to be neglected. It is only by the creation of a special policy department, a General Staff, freed from all current administration, that it is possible to secure forethought and effective planning. So far, however, with the exception of one brief interlude to which I shall refer in a moment, we have never recognized that this principle applies at least as much to politics as to war.

We attempt to direct the affairs of a great nation by weekly meetings between departmental chiefs, all absorbed in the routine of their departments, all concerned to secure Cabinet sanction for this or that departmental proposal, all giving a purely temporary and more or less perfunctory attention to the issues brought up by other departments. Every Cabinet meeting is a scramble to get through an agenda in which the competition of departments for a place is varied by the incursion of urgent telegrams from abroad or of sudden questions in the House of Commons for which some sort of policy or answer must be improvised. The one thing that is hardly ever discussed is general policy. Nothing, indeed, is more calculated to make a Cabinet

Minister unpopular with his colleagues, to cause him to be regarded by them as "Public Enemy No. 1," than a tiresome insistence on discussing general issues of policy, often controversial, when there are so many urgent matters of detail always waiting to be decided. The result is that there is very little Cabinet policy, as such, on any subject. No one has time to think it out, to discuss it, to co-ordinate its various elements, or to see to its prompt and consistent enforcement. There are only departmental policies. The "normal" Cabinet is really little more than a standing Conference of departmental chiefs where departmental policies come up, from time to time, to be submitted to a cursory criticism as a result of which they may be accepted, blocked, or in some measure adjusted to the competing policies of other departments. But to a very large extent each department goes its own way, following its own bent and its own tradition, fighting the "Whitehall War" to the best of its ability.

There is one department which pursues that war under particularly advantageous conditions. The Treasury claims the right to treat every departmental proposal that involves any expenditure, however small and however purely incidental, as something within its own departmental sphere, requiring its consent before it can even be brought before the Cabinet for discussion. On the other hand, the whole field of monetary policy and of taxation, profoundly affecting every other aspect of the national life, is regarded as a special Treasury preserve with which Cabinet colleagues are not supposed to meddle. More than that, in this special and yet all-pervading field, the Treasury has always steadily pursued its own policy, however inconsistent with the general policy of the Cabinet. It enjoys immense powers of holding up and frustrating, in detail, policies sanctioned by the Cabinet and by Parliament, and exercises them to the full.

The whole system is one of mutual friction and delay with, at best, some partial measure of mutual adjustment between unrelated policies. It is quite incompatible with any coherent planning of policy as a whole, or with the effective execution of such a policy. It breaks down hopelessly in

a serious crisis where clear thinking over difficult and complex situations, definite decisions (not formulae of agreement) and swift and resolute action are required. That was our experience in the Great War. The formation of a National Government in 1915, though supported by an overwhelming majority in Parliament, and by an almost unanimous country, provided no solution to the problem of securing prompt and definite decisions on policy, or of speeding up the machinery of administration to give effect to them. The fault lay, no doubt, in part with Mr. Asquith's personality. But it lay no less with the inherent incapacity of the existing Cabinet system. As early as February 1916 the late Sir Mark Sykes and myself urged in the House of Commons that the only Government that could carry on the War was a Cabinet of four or five men entirely free from all departmental responsibilities, concerned only with policy, and in a position to give their whole time, individually and collectively, to the thinking out, shaping, and execution of policy. It was this solution which Mr. Lloyd George adopted a few months later. As one who has sat for some six years in ordinary Cabinets, but who was also privileged to attend, as one of its secretaries, most of the meetings of the War Cabinet in 1917 and 1918, I can say without hesitation that there is no comparison between the two systems in efficiency, grasp of the problems before it, or driving power. The War Cabinet was kept in touch with the administrative departments by the attendance of departmental Ministers and experts at Cabinet meetings, though only for such items of the agenda as they were directly concerned with, or by its individual members presiding over inter-departmental committees. The decisions were those of the War Cabinet alone, and the policy was that of the War Cabinet and not of the departments. The change of system was, in my opinion, at least, one of the factors which contributed most to the final victory.

I believe that a similar change of system is called for to-day. The problems created by the economic crisis are at least as complex, at least as deserving of close, detailed study, at least as insistent upon clean-cut, bold, and swift action, as any of the problems of the Great War. What is

needed is a Cabinet of not more than six, no one of whom should have any departmental duties. It would no doubt be desirable that individual members should, to a considerable extent, specialize on kindred groups of subjects and co-ordinate the policy of the departments concerned. Thus one member might concentrate especially on economic policy and co-ordinate the work of the Treasury, Board of Trade, and Board of Agriculture; another on defence, another on Imperial and foreign affairs; another on social questions. But what is essential is that they should all, *without exception*, be free of departmental work and should all contribute effectively to the formation of a common Cabinet policy on all subjects, to its execution and to its exposition in Parliament and in the country. This, the most urgent of all reforms, if we are to master our problems and save our constitutional heritage intact, is also technically the easiest. It requires no mandate, no legislation; nothing but a Prime Minister with courage.

It is sometimes suggested that the desired object can be secured without so far reaching a change, or one involving so many personal disappointments, by creating a policy committee of the Cabinet, and still retaining the larger Cabinet for the decision of major issues. The experience of the War, when that compromise was tried, showed that the inevitable tendency of such a committee is to discover that there is no question that does not raise major issues, or at least issues affecting departments which insist on having a say in the final decision. So long as there is a larger body with the ultimate power, so long will the smaller body tend to postpone coming to decisions, and so long will policy be overlaid with administration and routine. It might, indeed, be possible to have two Cabinets in name, one for policy and one for administration, provided it is clearly laid down that the Administrative Cabinet is to meet, not to discuss what the policy should be, but only how it is to be carried out in detail. But that requirement is met much more simply by having the administrative Ministers attend the Policy Cabinet as and when they are required. Similarly it is suggested that at any rate the Chancellor of the Exchequer or the Foreign Secretary should form part of the Policy

Cabinet. That again involves a dangerous weakening of the whole scheme. In the case of the Chancellor of the Exchequer, in particular, it would defeat one of the main objects of the proposed reform which is to put the Treasury into its proper place as a department and not as a more than semi-independent political power.

The reform of the parliamentary machine is a much bigger undertaking. Only a government that had won the confidence of the country, and had secured, in general terms, at any rate, a mandate for reform, could initiate so far-reaching and complicated a task, and see the new system securely established. At this stage it is enough to suggest the main principles and outlines of a possible scheme of reconstruction. The first condition to my mind should be that Parliament, and in particular the House of Commons, should remain the focus of contact between the Government and the nation, and that there should be no impairing of the established principle of responsible government. The essence of that principle is that the King's government should be responsible alike for administration, finance, and, in a large measure, legislation, and must therefore be in a position to command a majority in Parliament.

That raises, at once, the question whether we are to continue to maintain, in some form or other, the principle of party government, or abandon it for some version of the "totalitarian" state, in other words, for a system in which all parties, or all save the dominant party, are proscribed, as in Russia, Italy, or Germany, or for one whose structure is so devised, as in the new Austrian corporative constitution, as to give practically no scope for party activity. The right to associate in political parties and to endeavour through them to influence the course of government is an inseparable consequence of the right of freedom of thought, speech, and print on political issues. "Party," to quote Burke, "is a body of men united for promoting by their joint endeavours the national interest upon some particular principle upon which they are all agreed." It affords the natural means for organizing public opinion for the spreading of a new set of ideas striving to win acceptance, or in defence of existing ideas, whose permanent validity it wishes to

uphold. By ensuring that the case for neither side is neglected it serves an important function in educating public opinion. In Parliament it gives stability and cohesion to the majority upon whose support any system of responsible government must rely, as well as to the minority whose responsible criticism is no less essential a part of the work of that institution. At the same time it supplies, under our tradition, the alternative team which is essential to the vitality of the whole system. In the country it serves between elections to maintain contact between the public on the one hand and parliament and government on the other, and, at election times, to define and concentrate the issues.

With us the two-party system has been the normal type to which, after not infrequent interludes, we have regularly reverted. Its origins have been historical, but it has its natural justification in the fact that at most periods there is a particular definite and coherent set of political ideas endeavouring to secure ascendancy. This embodies itself in one party, while the ideas which it would displace embody themselves in another party for their defence. It certainly gives to the whole business of politics a zest and a sporting interest which are by no means to be despised, while the team spirit which it fosters helps to moderate purely personal ambition and intrigue. The system is at its best where the underlying element of common agreement is widest. Where, on the other hand, the element of difference is greatest, as over the religious issue in the seventeenth century, or over class economic issues to-day, then there is always the danger that the promotion of the "particular principle" may altogether outweigh the "national interest." A constitutional system based on party, can, indeed, only survive if it finds solutions for those problems which, if left unsolved, would destroy the underlying foundation of national unity. No scheme of constitutional reform, in our day, can hope to succeed unless we can at the same time also find a solution of our unemployment problem, and of the other social problems which the capitalist age has left behind it.

We can accept, then, the party system, and preferably the two-party system, as a useful, and, indeed, inevitable element in our constitutional machinery. What is vital is

that it should not be allowed to acquire an ascendancy which would wreck the machine itself. I have already referred to the danger from conflicts of emotion or interest which may cut too deep into the national life. But there are also dangers inherent in the party system itself, or, rather, in its identification with the crude democratic theory that it is a majority of the electorate which should govern, delegating its powers, through a parliamentary majority, to a nominee government. For that theory leads directly to the practical conclusion that it is the party caucus which should appoint the government and control all its actions, and to the further conclusion that the will of the party caucus should be law, and that no constitutional obstacle to the immediate fulfilment of that will should be allowed to exist. That conclusion, whether in Socialist or Fascist hands, means the end of freedom.

We must maintain, at all costs, the essential principle that the Government is the King's Government, selected by him to govern in the national interest; with the general support of Parliament and the nation, in ascertaining and organizing which the party machinery is, no doubt, indispensable; but in no sense nominated by or subordinate to the party machinery. Even more important is the maintenance of the principle that the Government is under and not above the Law, and that far-reaching changes in the law of the land can only be made after adequate discussion and with a substantial measure of general consent. The natural corollary of this is not only due provision for debate in the House of Commons, but power in some other body or bodies, not dominated by a party majority, to revise, delay, and, on occasion, reject proposals brought forward by a party government, until it can be ascertained that they enjoy the consistent support of public opinion.

This is all the more important since the growth of the party machine, on the one hand, and the change in the structure of our national life on the other, have deprived the House of Commons of much of its representative character. This is peculiarly true when it comes to the consideration of those economic problems which are more and more occupying the whole field of politics. Our geographical basis of representation was originally also a real



functional basis. The knights of the shire represented agriculture; the burgesses represented a variety of localized industrial and commercial interests. Whatever party might win the election, the main elements and functions of our national life were represented in Parliament in proportion to their importance in the simpler economic and political structure of the day. When the original scheme ceased to be properly representative more than a century ago, because it excluded great new industries and vigorous and politically conscious elements of society, it was still possible to meet the practical needs of the situation by the suppression of rotten boroughs, by redistribution, and by successive extensions of the franchise, without altering the geographical basis.

To-day, with the immense increase and spread of our population, with practically universal suffrage, and with the diffusion of industry and commerce, the old geographical constituencies have to a large extent, for economic purposes at least, lost their justification as the basis of a representative system. They have ceased to be real units and become mere arithmetical subdivisions. The real units, the great collective elements of the national life, the industries that are its organs, are unrepresented except by accident or in the most one-sided fashion. Agriculture is practically only represented by landlords; coal-mining, on the other hand, almost exclusively by miners; engineering, building, transport, the distributive trades, science, and medicine only in so far as someone with knowledge of these matters happens also, for other reasons, to be a Member of Parliament. A constituency which stands for no true collective interest, and whose member only represents the party caucus which has that seat in its gift, is, in effect, a rotten borough. From that point of view a very large proportion of our parliamentary constituencies to-day are rotten boroughs.

The time has come, I believe, for a new and far-reaching Reform Act which will recognize the ever growing economic organization of the national life as a necessary basis of representation. The conception of the "corporative" or "functional" basis of representation is by far the most practical and fruitful contribution which Mussolini has made to progress in the art of government. But the idea of

such representation was embodied, even before Mussolini, in the project for a permanent National Industrial Council of four hundred members, representative in equal numbers of employers' organizations and Trade Unions, which was recommended in April 1919 by the Provisional Joint Committee of the National Industrial Conference. That project was dropped in the general reaction against all creative reconstruction which followed the economic depression at the end of 1920. But the establishment of such a "House of Industry" (including, of course, agriculture and commerce) based on the representation of the true organic units of our national life, and on a fair balance of the interests of employer and employed, is a real need to-day. It is, in any case, as I have pointed out in a previous chapter, the necessary consequence of any comprehensive policy of industrial self-government.

The advantage in setting up a separate "House of Industry" is that the new principle of functional representation can in this way be tried, without destroying the old geographical principle, which has its value, not only on historical grounds, but as the instrument, through the party system, of general national policy. The new chamber would be one in which the great economic problems of the day could secure practical and responsible discussion, free from abstract party catchwords and programmes as well as from purely partisan manœuvring for power. It would, I believe, soon attract the best elements on both sides in industry, which would be willing to find the time for practical and congenial business which they will not give to the House of Commons under present conditions. Linked in this way with the actual control of the laws that governed them, both employers and employed generally would tend to acquire a more national point of view; to regard industry as a constituent element in the national life, directly contributing to, as well as dependent upon, the strength and health of the whole, and not merely as a collective phrase for a number of competing firms, and of workmen marshalled against them, each only concerned with immediate results in profits or wages.

On the other hand, the scope of the new chamber would

be definitely limited, and there could be no question of its attempting to compete with the House of Commons in the field of finance, of general legislation, or of administration. The House of Commons would still remain the central and predominant element in the parliamentary system, the point of junction between the Government and a politically organized nation, the pivot of our system of responsible government. The general principle upon which it is recruited would remain unchanged. But there may well be room for amendment in detail. Proportional Representation would be no substitute for the creation of a separate chamber based on functional representation. Nor would its theoretical advantages in securing a more accurate representation of parties outweigh, in country constituencies, or smaller boroughs, the closer contact between members and constituents that the present system affords. On the other hand, it would enable the greater cities to regain a sense of corporate unity for national purposes which is dissipated when they are arbitrarily chopped up into segments possessing no individual life of their own, and is well worth considering from that point of view.

Again, while the "House of Industry" would naturally include all those functions of the national life which are essentially economic, there are others, primarily cultural or intellectual, which should secure fuller representation than they do at present, but whose proper field is the House of Commons. The principle of University representation is one that should be extended, both by increasing the number of the University seats, and by providing similar representation for the great organized bodies in which the scientific and learned professions are enrolled. Lastly, there is much to be said, from the point of view of political stability, for the correction of the defects of universal suffrage by an increase of plural votes, given in order to strengthen, not the influence of wealth, but the element of social responsibility. Mr. Churchill has suggested the giving of an extra vote to every householder of a dwelling in which more than two persons habitually reside. An alternative would be to emphasize the responsibility of family life by giving an additional vote to the head of a family for every child for

whose maintenance he or she is responsible. These extra votes, at any rate, should only be enjoyed by those who had not become dependent on the public for the maintenance of their families.

A further change in the direction of increasing the sense of responsibility on the part of the voter would be to make voting obligatory. Our whole political organization in the constituencies is governed to-day, in practice, not so much by the aim of securing the conversion of the voter to our views, as by that of persuading those who already hold our views to do us the favour of coming to the poll. To make it clear that the citizen's vote is a public duty, and not a personal privilege to be exercised if convenient, or a favour to be conferred, would affect the general tone of politics, as well as modify its methods. Not least important among the consequences of obligatory voting would be its effect in preventing well-organized minorities winning elections owing to the apathy of the true majorities. The experience of Australia, Belgium, and other countries which have adopted this reform indicates no difficulty in its application.

There remains the question of the reform of the House of Lords. Here we shall do well, I believe, to avoid all elaborate schemes based on the principle of direct or indirect election, and to go back frankly to the original principle on which that House was based, namely individual selection. The Upper House consisted originally of those great nobles whose individual importance warranted their being summoned *as themselves*. Under feudal conditions those who succeeded to a great estate and to all the local influence which it gave, were normally, though not necessarily, summoned in succession to those from whom they inherited. The legal right to succeed was a subsequent invention of the lawyers. But well down into the last century the hereditary peerage still represented an element of immense authority in the country, and the House of Lords remained a correspondingly valuable element in the constitution.

To-day the personal prestige and influence of individual peers, whether such by inheritance or new creation, still stands high. But it cannot be said that the hereditary peerage,

as such, is a body of sufficient real significance in the national life to warrant its constituting a House of Parliament in itself. The House of Lords to-day retains only one really distinctive feature, the individual independence of its members. That, however, is an essential feature which we must preserve at all costs, and that is why any reform based on election is, in my opinion, undesirable. The greater the danger of the House of Commons increasingly consisting of representatives subservient to their electors or to the party machine, the more essential is it that the House of Lords should be representative in the wider sense of embodying the typical characteristics of the nation, its individuality, its independence, its broad tolerance and love of compromise. The only immediate reform I would introduce would be the re-establishment of the principle of the life peerage. I would use the new power freely, but I would allow a number of years to pass, in order to enable the proportion of life peers to become substantial, and to link the tradition of the old House to the new, before proceeding to the next step, namely limiting the numbers of the House, and confining its members mainly, or even exclusively, to those summoned in person as Lords of Parliament. Even that change would not, in fact, be very marked. For I believe that the tradition of public service in the hereditary peerage is such that a very large proportion of its members would make it their aim to justify their titles by qualifying for their summons. I believe a summons for life would be preferable to one for a period of years, as more calculated to emphasize the independence of members. But it should be possible for any Peer to retire from service in Parliament on grounds of age or health, retaining his title for the rest of his life.

The qualification for selection to the Upper House should be a wide one, based on every kind of public service or distinction, whether in Parliament, in local government, in the administrative or fighting services of the Empire, in business, trade union organization, science, literature or art. In the selection itself the government of the day should have at any rate a dominating voice. But there are great disadvantages, as the experience of Canada has shown,

in a system by which the Upper House tends to contain the maximum of supporters of one party at the end of that party's tenure of office, especially if it has been a long one, and is therefore most inclined to be at issue with a new government. A system by which a proportion of the names might be suggested by the Leader of the Opposition, possibly as a member of a small committee of inquiry and recommendation, has much to be said for it.

The restoration of life peerages would, of course, greatly widen the field of choice by including many poorer men, or men to whose sons a peerage would simply be an embarrassment. But it would only gradually reduce the disproportion of parties, on the present party alignment. That is a disadvantage I should accept for the sake of continuity, even if it involves, as a corollary, leaving the Upper House, for the time being, in the position of inferiority imposed upon it by the Parliament Act.<sup>1</sup> In any case it would be a mistake to destroy the essential character of the House of Lords in order to meet the theoretical requirements of a situation which I believe to be in itself unnatural and transitory. A party based on class, such as the Socialist Party is in the main to-day, is an anomaly due to our failure to meet the economic consequences of the *laissez-faire* period. Our object must be so to deal with our economic problems that the future division between our parties will be based, not on class interests, but on differences of political principle with regard to which the Upper House would then soon find itself more evenly divided. That it should have a certain prepossession against violent changes is, indeed, inherent in the function of any Second Chamber. In view, however, of the general drift of political development it is from the present Right quite as much as from the Left that the demand for revolutionary change may be made in the next generation.

The relations between the three Houses must, in large measure, be left to work themselves out in practice. The new House of Industry need not, at the outset, have more

<sup>1</sup> There is, however, a strong case for immediate action in tightening up the definition of a Money Bill and relieving the Speaker of some share of an unenviable responsibility.

than purely advisory functions. The scope and importance of those functions would depend very largely upon the part which the Government itself assigned to the new Chamber. If the Government made it a rule to submit all legislation on industrial and economic questions to the House of Industry in the first instance, both for acceptance of its general principle and for its detailed criticism in Committee, before introducing it in the House of Commons or House of Lords, the authority of the new chamber might grow very rapidly. By a proper use of all three chambers it ought to be possible to secure both fuller discussion than is available to-day and at the same time make more rapid progress. Our trouble to-day is not that legislation receives too much consideration—far from it—but that our machinery is inadequate to secure the proper despatch of the business before us. The right answer to the demand for more efficiency is not the suppression of informed criticism, but the provision of more facilities to bring it to bear without holding up the general course of government.

It would, no doubt, be desirable, in this connexion, to secure a considerable simplification of procedure. It is surely unnecessary that every measure should have to pass through all its stages, Second Reading, Committee, Report, and Third Reading in both Houses. Still more unnecessary and vexatious is the waste of time involved in going through all the stages of a measure in one House, if the principle of the measure is to be rejected on second reading in another House. The existence of a third chamber, even if only of an advisory character, would add to the unnecessary repetition involved. Common sense would suggest that it should be possible to introduce a measure simultaneously in each House, and secure a Second Reading in each, before embarking upon the further stages.<sup>1</sup> It might equally suggest that Committee and Report stages might be divided between the Houses concerned, or taken by joint select committees. An industrial measure, for instance, might,

<sup>1</sup> This object was, to some extent, achieved, in connexion with the present India Bill, by securing in both Houses resolutions approving the general scheme on which the Bill was to be framed. The principle is capable of extension, and there is much to be said for such fully documented resolutions superseding the Second Reading stage altogether.

after a full Second Reading debate in the House of Industry, be given a shorter Second Reading debate by Lords and Commons, go through a full committee stage in the House of Industry, and then after Report in Lords and Commons, receive its Third Reading in both Houses. A natural and necessary corollary of such a division of labour would be the admission of the right of Ministers to speak in either of the existing Houses as well as in the proposed new House of Industry.

Another useful simplification would be the introduction of the principle of continuity in legislation not only from session to session, but even from Parliament to Parliament. There is no conceivable practical reason why a non-controversial measure that has passed through most of its stages before the end of a session should not be considered, at whatever stage it has reached, in the next session, even if that should be a session of a new Parliament. Other minor reforms, like the omission of the purely time-wasting financial resolutions and the setting up of Advisory Committees to report on the estimates and legislative proposals of individual departments, or on Ministerial Regulations, or to assist in drafting, are no doubt well worthy of consideration, but their detailed discussion would carry me beyond the limited scope of the present work.

The changes I have suggested may seem revolutionary in their effect upon some of our customary conventions. But, so far from being revolutionary in essence, they are all aimed at restoring the balance of the constitution, and securing the efficiency and driving power of government, on the one hand, and full parliamentary discussion on the other, both conditions equally essential to the preservation of our freedom. The most revolutionary of my proposals, the setting up of a third House of Parliament, has, after all, the same warrant as the creation of the Air Force alongside of the older fighting services, namely the emergence of modern conditions. And, just as the addition of a third fighting service is paving the way towards a more unified outlook on strategy as a whole, so it may well be that three Houses may combine to create a much more efficient and smoother working Parliamentary machine than we have known in the past.



This chapter has been devoted to the machinery of government. But the phrase is a dangerous one unless we keep continually in mind that we are dealing not with rigid, lifeless material but with human energies and instincts. The new instrument will only become a reality in response to the demand of the living forces that want to make use of it, and these, in their turn, will derive their creative power from the system of ideas that underlies them. It is ideas and ideals that in the last resort are the great destructive and creative powers in the world. So I come back to the theme with which I began this book. The system of ideas which shaped the political and economic development of the nineteenth century has worked itself out. A new system of ideas, less unscientific and more constructive, is shaping itself in men's minds everywhere. It is for us to adapt that new system to the existing structure of our national and Imperial polity, to our economic and social policies, to our constitutional traditions. During the next generation the control of the destinies of this country, of the Empire, and in large measure of the world, will lie with those who, holding fast to our heritage from the past, are also most fully seized of the ideas of the age, and inspired by "the rapture of the forward view."

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